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ABSTRACT

These documents contain the hearings before the Special Subcommittee on Education of the House of Representatives dealing with student financial assistance. Separate hearings were conducted for the areas of: student loan programs; graduate programs, grants, and institutional aid. Legislative histories of the five areas were presented along with testimony from experts in the field of educational finance. Conclusions and recommendations for changes in federal policies toward student financial assistance are included in the documents. (PC)

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STUDENT FINANCIAL ASSISTANCE

(Student Loan Programs)

HEARINGS

BEFORE THE

SPECIAL SUBCOMMITTEE ON EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

PART 3

STUDENT LOAN PROGRAMS

HEARINGS HELD IN WASHINGTON, D.C.,
MAY 28, 29, 30, AND JUNE 3, 1974

Printed for the use of the Committee on Education and Labor

Carl D. Perkins, *Chairman*

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STUDENT FINANCIAL ASSISTANCE

(Student Loan Programs)

TUESDAY, MAY 28, 1974

House of Representatives,
Special Subcommittee on
Education of the Committee
on Education and Labor,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 2261, Rayburn House Office Building, Hon. John Brademas (acting chairman of the subcommittee) presiding.

Present: Representatives O'Hara (chairman of the subcommittee), Brademas, and Dellenback.

Staff members present: Jim Harrison, director; and Elnora Teets, clerk.

Mr. Brademas. The Special Subcommittee on Education will come to order for the purpose of hearing statements by Dr. John D. Phillips and Mr. James W. Moore of the U.S. Office of Education with respect to student loan programs.

The chairman of the subcommittee, Mr. O'Hara, is on his way and therefore asked me to move ahead with the hearings. Chairman O'Hara has also asked that the provisions of law currently in force dealing with the Guaranteed and Direct Student Loan Programs be made a part of the hearing record. Without objection, it is so ordered.

(See pp. 211 et seq.)

Gentlemen, we are very pleased to have all of you and Miss Hopson with us this morning, so please go ahead.

STATEMENT OF DR. JOHN D. PHILLIPS, ACTING ASSOCIATE COMMISSIONER FOR STUDENT ASSISTANCE, BUREAU OF POSTSECONDARY EDUCATION, U.S. OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY CHARLES COOKE, JR., DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION); DR. LEONARD H. O. SPEARMAN, DIRECTOR, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS, BUREAU OF POSTSECONDARY EDUCATION; RICHARD ROWE, DEPUTY DIRECTOR, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS, BUREAU OF POSTSECONDARY EDUCATION; AND PATRICIA HOPSON, ASSISTANT CHIEF, PROGRAM SUPPORT BRANCH, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS, BUREAU OF POSTSECONDARY EDUCATION

Dr. Phillips. Mr. Chairman, before I begin, I would like to introduce Mr. Charles Cooke, Deputy Assistant Secretary for Legislation, on my left, Dr. Leonard Spearman, Director of the Division of Student Support and Special Programs, on my right, and his Deputy Director, Dick Rowe, and Miss Patricia Hopson, Assistant Chief of the Program Support Branch within the Division.

Mr. Chairman and members of the subcommittee, it is a pleasure to be here today and to briefly review the history and operation of the national defense-direct student loan program. The following statement is intended as a brief overview. However, we would be happy to respond to questions from committee members who might wish us to expand upon this written statement.

I. Legislative History of the National Defense-Direct Student Loan Program

The House Committee on Education and Labor opened hearings on a scholarship and loan proposal on August 12, 1957, from which emerged a student loan program under title II of the National Defense Education Act of 1958, Public Law 85–864.

This legislation authorized a program of low-cost, deferred-repayment loans funded 90 percent with Federal moneys and 10 percent with institutional moneys, administered directly by postsecondary institutions for their full-time undergraduate and graduate students.

After 1964 the authorization was extended to half-time undergraduate and graduate students who are in need of these loan funds to pursue their course of study in postsecondary institutions.

The national defense-direct student loan program as originally conceived was designed to assist colleges and universities in establishing revolving loan funds in order to aid needy students.

Although approximately 150 institutions have reached the stage of requiring no further Federal capital contributions because an adequate supply of new loans can be provided solely from collections, the majority of participating institutions has not yet successfully achieved this objective. I shall refer to this important concern later in my statement.

Since the program's inception, these loans have generally been made without security or endorsement. Originally, the loan amounts were limited to an annual maximum of $1,000 and an aggregate maximum of $5,000. The Education Amendments of 1972 established new cumulative loan limitations: $2,500 through the first 2 years, $5,000 through completion of the bachelors' degree, and $10,000 through completion of graduate or professional study. These loan limitations replaced the former annual loan maximums.

No interest is charged students during the period they are in attendance at an institution of postsecondary education as at least half-time students and during the grace period following cessation of such attendance, which was originally 1 year and is now 9 months.

Interest is charged at the rate of 3 percent per annum on the unpaid balance during a repayment period that normally is spread over a 10-year period. Deferments of loan repayments are given for (1) up to 3 years of service in the Armed Forces; (2) up to 3 years of service in the Peace Corps or VISTA; and (3) any period of continued education on at least a half-time basis in an institution of postsecondary education.

Title II, section 207, of the National Defense Education Act of 1958 also provided that an institution which was unable to contribute any or all of the matching one-ninth institutional capital contribution from its own fund could borrow such amount from the Federal Government. The amount authorized to be appropriated for this purpose for the life of the program was not to exceed $25 million. There is no comparable provision in the Education Amendments of 1972.

It should be noted that the NDSL program was the first leg of a three-legged stool, including college work-study and educational opportunity grants, that would ultimately be referred to as the college-based programs.

With the advent of CWS and EOG—now SEOG—in 1964 and 1965, respectively, the Federal Government had put into place the prototype of the grants-loan-work concept to provide diversified resources in student assistance to be administered by institutions. A second loan program, the guaranteed federally insured loan program, was authorized by the Higher Education Act of 1965.

There have been more than 40 amendments to the act establishing the national defense-direct student loan program. To trace each of these amendments in an overview would add considerable complexity to our efforts.

Let me say here they really break down into five major areas, and perhaps it is just as well if I skip over the written testimony and indicate what the general thrust is. The five major areas would be institutional eligibility—I think members of the committee are well aware of the expansion of institutional eligibility that has taken place in the last few years; changes in student eligibility; changes in the provisions for cancellation of loans, which are rather extensive and pose some major problems in the program; provisions for repayment, which appear on page 7 of the written statement; and finally provisions concerning the loyalty oath and affidavit requirement.

A. INSTITUTIONAL ELIGIBILITY

The Higher Education Act of 1965—Public Law 89-329—defined "eligible institutions" to include those providing 1-year training programs—including schools of nursing—to prepare students for gainful employment in recognized occupations.

Amendments in 1968—Public Law 90-575—provided participation in the program, if the appropriation exceeded $190 million, to institutions that met the following requirements:

1. They provided not less than a 6-month program of training to prepare students for gainful employment in a recognized occupation.

2. They admitted as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such certificate.

3. they [were]

legally authorized within such State to provide a program of education beyond secondary education;

4. they [were]

accredited by a nationally recognized accrediting agency or association approved by the Commissioner;

5. they included in their agreements assurance

> that the availability of assistance to students at the school * * * has not, and will not, increase the tuition fees or other charges to such students.

This provision extended eligibility to participate in the program to certain proprietary institutions.

B. STUDENT ELIGIBILITY

Loans were made available for half-time study in 1964. In addition, the requirement that preference be given to students in certain areas of preparation and/or study was repealed by the 1964 amendments to the Act—Public Law 88-665. The 1968 amendments—Public Law 90-575—provided for the elimination of special consideration for students of superior academic background. The Education Amendments of 1972—Public Law 92-318—provided that in determining the need of veterans for such a loan, an institution shall not take into account the income and assets of their parents.

C. PROVISIONS FOR CANCELLATION OF LOANS

The 1964 Amendments—Public Law 88-665—provided for loan cancellation benefits for teaching in institutions of higher education.

The Higher Education Act of 1965—Public Law 89-329—authorized loan cancellation of 15 percent per year for teaching in certain elementary and secondary schools. This provision made it possible for cancellation of up to 100 percent of loans under certain conditions. In 1966 the act was amended—Public Law 89-752—to provide for loan cancellation of 15 percent per year for teachers of the handicapped.

The Elementary and Secondary Education Act Amendments of 1969—Public Law 91-230—amended the NDEA of 1958 to provide cancellation for military service on loans made after April 13, 1970, for each year of service, beginning after June 30, 1970, at the yearly rate of 12½ percent, not to exceed 50 percent of the borower's total loan. The Education Amendments of 1972 changed the provision permitting cancellation for military service to require that such service must be performed in "an area of hostilities."

The Education Amendments of 1972 rescinded all cancellations at 10 percent rate for teaching service in public or other nonprofit elementary and secondary schools, or in institutions of higher education. The provision for cancellation for service in designated eligible title I schools with a high incidence of students from low-income families—with changes in criteria for selection—and cancellation for teaching of the handicapped was retained. Borrowers are now eligible for the cancellation of the entire amount of their loans at a progressively increasing rate over a period of 5 years. In addition, the Education Amendments of 1972 provide for the cancellation for service as a full-time staff member of Headstart at the rate of 15 percent annually.

D. PROVISIONS FOR REPAYMENT

Several significant changes in repayment requirements were authorized in the Higher Education Act of 1965 [Public Law 89-329]. These changes included a requirement of monthly, bimonthly, or quarterly payments on loans made after enactment rather than the annual repayment authorized under the original act.

In addition, the grace period was reduced to 9 months from the previously authorized 12 months, and institutions were permitted to exercise the options of requiring a minimum repayment and assessing late charges to borrowers.

The Education Amendments of 1972 [Public Law 92–318] provided for the inclusion in the promissory note form, at the option of the institution, that repayment on a loan may be required at no less than $30 monthly.

E. PROVISIONS FOR LOYALITY OATH AND AFFIDAVITS

The disclaimer affidavit requirement was repealed through amendments to the Act in 1962 [Public Law 87–835]; however, the loyalty oath was retained as a requirement for receipt of a loan through June 30, 1972, but was not included in the Education Amendments of 1972. The Education Amendments of 1972 provided for the requirement of an affadavit of educational purpose on all national direct student loans granted by an institution.

A summary of program historical statistics is attached to this statement, showing the expansion of the program in numbers of borrowers, loan volume, and numbers of institutions. Since the inception of the program through fiscal year 1974, an estimated $3.4 billion has been loaned to an estimated 3.3 million unduplicated borrowers.

II. THE OPERATION OF THE NATIONAL DEFENSE—DIRECT STUDENT LOAN PROGRAM

1. The national defense—direct student loan program is currently administered under agreements between the U.S. Commissioner of Education and 2,639 participating institutions of postsecondary education.

Under the terms of these standard agreements, the institutions are responsible for all student contacts, including the eligibility and selection of students for loans, the determination of need, the awarding of loans, and the collection of loans from students after they leave school. It is estimated that as many as 6,000 institutions may be eligible to participate in the program.

Institutions apply annually for an approved level of lending for the operation of their National Direct Student Loan Fund and for a new Federal capital contribution. The approved Federal capital contribution, the institution's required capital contribution, and amounts generated from loan collection and from cash remaining in the fund from June 30 of the previous year allow the institution to provide loans to needy students.

The applications—which are part of a tripartite application covering the three campus-based student financial aid programs—are submitted to the appropriate regional offices of the Office of Education, where they are reviewed by panels of experts in student financial aid. The regional panels recommend to the appropriate regional director of postsecondary education a level of lending and a Federal capital contribution for each institution.

After the regional director of postsecondary education reviews these recommendations, a notice of recommended funding levels is sent to each institution. There is an opportunity for an institution to appeal the first review group's decisions to a regional appeal group and subsequently to a national appeal panel. After all the recommended funding levels are established, the recommended amounts are totaled by State.

The appropriation for new Federal capital contributions to the NDSLP is divided among the States according to a statutory formula, which specifies that 90 percent of the funds shall be allotted among the States in such a manner that each State's proportionate share of the amount so allotted is equal to its proportionate share of the national full-time enrollment in institutions of postsecondary education.

The remaining 10 percent is first used to raise each State to at least the level of its original allotment—prior to reallotment—for fiscal year 1972, if its allotment from the 90 percent portion is less than that level. The regulatory procedure for distribution of any remaining funds is to distribute them to the State(s) in which the allotments made thus far constitute the lowest percentage fundable of the aggregate panel recommendation. If the 10 percent portion is insufficient to bring all States to at least the level of their original allotments for fiscal year 1972, the regulatory procedure established by the Commissioner is to raise all States whose allotment from the 90 percent is less than their fiscal year 1972 allotment to a uniform minimum percentage of their fiscal year 1972 allotment. I apologize for the complexity of that description but that is the way it works.

The national defense student loan appropriation does not result in a constant allotment to each State because the enrollment of students in institutions of higher education has increased in some States and decreased in others over the last 3 years. In addition, the number of institutions is increasing in several States.

After the final allotment and the uniform percentage fundable for each State have been determined, then the funds available for each State are prorated among the institutions in that State, so that each institution receives the same proportionate share of its recommended Federal capital contribution as every other institution in that State.

2. Institutions submit an annual report of their loan activity in the NDSLP to the Office of Education. This report shows the cumulative status of each institution's NDSLP accounts, a cumulative summary of repayment information and of the status of past due loans, an annual report of loan volume and of the number of borrowers, and a brief review of collecion activities. Additionally, statistical information concerning the racial/ethnic distribution, the male/female distribution, and the family income distribution of the borrowers is collected.

3. As table I shows, the demand for the program has increased steadily throughout its history, both in terms of the amounts requested by institutions and the amounts recommended for funding.

Incidentally, that second item, the amounts recommended for funding, is line 2 in the summary table which is close to the back of this statement. The approved funding levels running across, ranging from a $62 million level in 1959 to a projected level of $563,175,000 for fiscal year 1975.

This demand is caused by the expansion of the number of eligible students attending institutions of postsecondary education, by the increasing costs of postsecondary education, and by the increase in the number of institutions participating in the program.

Since the loan volume in the early years of the program was relatively small in relation to the current demand for funds, the collections generated from prior years are insufficient to meet the current needs. In fiscal year 1974, for example, an estimated $150 million collected on prior loans will be part of an estimated total loan volume of $464,900,000.

III. EVALUATION AND MEETING OF PROGRAM OBJECTIVES

Evidence of effectiveness of the NDSL program has been generated from three basic sources: (1) An analysis of the fiscal operations reports submitted annually by institutions participating in the program, and other valid sources; (2) a task force study which concentrated on the effective delivery of services from the Office of Education; and (3) the Office of Education's internal check on the extent to which institutions have developed a self-sustaining loan fund.

An analysis of the 1970 fiscal operations report indicates that the NDSL program is achieving its goal of helping needy students meet the cost of postsecondary education. General conclusions derived from these reports indicate that:

1. Nearly half—49 percent—of the NDSL students come from families with annual incomes of less than $6,000. An estimated 10 percent of this count represents independent students whose income levels are relatively modest;
2. Twenty-one percent of the NDSL students were members of minority groups;
3. The average loan to students is currently $690 per year; and
4. In 51 percent of the cases NDSL was combined with Federal grant and/or work funds to produce an effective aid package to meet institutional costs.

In a recent study released by the American Council on Education entitled "The Impact of Office of Education Student Assistant Programs, Fall, 1973" it was reported that of an estimated total number of 752,900 participants in NDSL during 1973–74:

1. Under another Federal program 524,200 received assistance;
2. Ninety-one percent oft he participants were undergraduates and of those more than 50 percent were freshmen and sophomores;
3. Ninety-three percent came from families with "Adjusted Family Incomes" of less than $15,000; and of those 56 percent had "Adjusted Family Incomes" of less than $7,500. This count includes an estimated 10 percent independent students whose income levels tend to be relatively modest; and
4. The average amount of the loan was $653 per student.

It should also be pointed out that the NDSL funds are distributed to all types of institutions. Our figures show that, in 1974, 54 percent, 38 percent, and 8 percent of the NDSL funds went to public, private, and proprietary schools respectively. (NOTE: In an earlier period, 1967, our figures indicated that 51 percent and 49 percent of the NDSL funds went to public and private schools respectively. Proprietary institutions were not eligible for participation in the program until after 1968, which means that in the last 6-year period, proprietary involvement in this program has grown from zero to 8 percent of the total loans.

A second approach in evaluating the effectiveness of the NDSL program was the establishment of a task force within DHEW/OE on management of student assistance programs. In the fall of 1973 this task force under my direction was concerned with the management of 10 Federal programs—including 6 student assistance programs and 4 closely related student services programs.

While no effort was made to isolate the NDSL program from the three college-based programs of which it is a part, a set of internal recommendations have surfaced which will (1) accelerate the delivery of awards to institutions participating in the program (2) respond to the need for a more determined effort in monitoring the NDSL program to make it an integral part of the delivery system. Although the task force report is not complete, it has afforded those in OE concerned with program implementation an opportunity to do an in-depth analysis of some of the factors related to effective delivery of services.

A third index of program efficiency relates to the extent to which institutions have reached a position of operating self-sustaining revolving funds. As you may recall, this was referred to in an earlier paragraph. One of the primary goals of the NDSL program was to assist colleges and universities to establish loan funds to aid needy students. Approximately 150 institutions have reached the stage of requiring no further Federal capital contributions and provide an adequate supply of new loans solely from their collections.

This small number of institutions which is in a completely revolving status is probably attributable to the following factors:

1. the expansion of demand;
2. the erosion of the fund; and
3. the problem of defaults and collections.

I would like to take these up in order and give you an idea of what our problems are in all three of these areas.

Expansion of demand

It would take approximately 15 years for an institution to reach fully revolving status if there were no increase in demand for funds caused by increased enrollments and increased costs. However, during the 17 years that the NDSL program has existed, 1959–75, approved institutional requests have risen from $62 million to $563 million, while the number of participating institutions has grown from 1,196 to 2,800.

Therefore, less than one-half of the current participants could conceivably be in revolving status. There is no discernible trend which makes it possible to identify by type—public-private; 2-year, 4-year—those institutional characteristics which are responsible for the 150 institutions having achieved this status.

Erosion of fund

It is estimated than in excess of $50 million will be lost to the fund in 1974, due to teacher cancellation alone. Until the 1972 amendments, institutions were reimbursed only for their portion of loan cancellation. On loans made after June 30, 1972, this leakage will be eliminated due to the fact that institutions will be repaid for the aggregate loan amounts cancelled (teacher and military) and these moneys will be returned to the fund. However a very small percentage of loans now in repayment status were made after that date. Therefore the leakage will continue but diminish over an estimated 15-year period.

The problem of defaults and collections

Probably the most serious fund leakage stems from the potential default rate—and I emphasize the word "potential." It is estimated that the current delinquency rate is about 10.4 percent and that the potential default rate is 14.2 percent. This rate is not fully comparable to the quoted GSL default rates and should be understood with the following background in mind.

Mr. Chairman, this is a rather complex analysis but with your permission I would like to go through it because I think it is a terribly important point for us to talk about.

Unedited data collected from the fiscal year 1973 fiscal-operations reports of 2,148 institutions participating in the national direct student loan program (out of a total participant group of approximately 2,300 institutions) were summarized for the aggregate United States. It should be noted that even a cursory review of the summary data reveals numerous inconsistencies, either as submitted by institutions or as keypunched. Consequently, only gross errors could be detected and corrected, without a thorough institution-by-institution check of the data, necessitating in many cases contacts with institutions on how to correct the report.

Such a review will be done for the entire group of fiscal year 1973 reports. Therefore, these rates are subject to adjustment when all fiscal year 1973 reports have been completely corrected.

Previously only delinquency rates were computed for the NSDL program; however, in order to permit a comparison with the default rate for the guaranteed loan program, a potential default rate as of June 30, 1973 has been calculated as follows:

Face value of loans fully retired	$255, 000, 000
Face value of loans in deferment status	30, 000, 000
Face value of loans on schedule in repayment status	1, 065, 000, 000
Face value of loans past due	490, 000, 000
Total matured loans	1, 840, 000, 000
Principal amount outstanding on loans in past due status for more than 120 days	[1] 261, 000, 000

[1] $261,000,000 divided by $1,840,000,000 equals 14.2 percent.

To explain the above, you take the sum of the face value of loans fully retired, the face value of loans in deferment status, the face value of loans on schedule in repayment status and the face value of loans past due and this gives you a total matured loan amount of $1,840 million.

The principal amount outstanding on loans in past-due status for more than 120 days is $261 million. Therefore, bearing in mind that there really is no default NDSL at present, the potential default rate can be derived by dividing $261 million by $1,840 million, and the rate derived is 14.2 percent.

Mr. DELLENBACK. May I ask a question? Dr. Phillips, when you say "face value of loans fully retired," I understand that as referring to loans which were incurred and have been fully paid off.

Dr. PHILLIPS. Right.

Mr. DELLENBACK. So what you are doing with the default rate is not talking about a current status situation, but talking about a default rate from the inception of the program.

Dr. PHILLIPS. That is right.

Mr. DELLENBACK. That is what the 14.2 percent figure is?

Dr. PHILLIPS. That is right.

Mr. DELLENBACK. Not a picture of the immediate situation but current only in the sense it measures from inception to now, and this is what could be defaulted.

Dr. PHILLIPS. That is correct; yes. The reason for that is because of the continuations.

Mr. DELLENBACK. I am not quoting then, but trying to understand what you are doing here. You are saying that from the beginning of the program until now, it is possible that 14.2 percent of total loans made will ultimately be in default?

Ms. HOPSON. Yes, and the reason for making it cumulative was partly the fact there was no provision for write-off of the bad loans; therefore in comparing them, we included the total except those that have not yet reached repayment status.

Mr. DELLENBACK. But of those who are outstanding at the moment—with the definition there—potential default is much higher than 14.2 percent because you have thrown in a solid base of $255 million which has been paid off in full?

Ms. HOPSON. I am not sure. We have not derived that rate. Are you saying, take those that are currently in past-due status, including everything since the inception of the program, and are you then asking that we try to segregate loans made since a certain date?

Mr. DELLENBACK. No, I am not quarreling with your procedure, but trying to understand it. I am not asking you to change anything whatsoever, but saying that since you have thrown in $255 million which will never be in default, because they have been paid off in full.

Ms. HOPSON. Right.

Mr. DELLENBACK. We are not dealing with 14.2 percent of the loans which have still not been paid off. Instead, of those loans which are outstanding at this moment, more than 14.2 percent will inevitably be—at least so far as this potential default is concerned—in default?

Dr. PHILLIPS. Right.

Mr. DELLENBACK. I will ask one other question, Mr. Chairman, to clarify one further area. When you quote the $1,065 million figure and label it as the face value of loans on schedule in repayment status, and then, in the total, call those "total matured loans" you don't, by "matured" mean "due and payable at the moment," but rather you mean "loans which have been made and are thus subject to either immediate or long term repayment"?

Dr. PHILLIPS. Yes, but we have not included here those loans which have been paid and are still in the in-school period. They would have to have reached the point at which the grace period has elapsed and they have entered repayment status.

Mr. DELLENBACK. You have now helped with what I had difficulty with, namely, definition of the word "mature." These are not mature in the sense that they are now due and payable in the way a bank would consider immediately mature. They have matured in the sense they have gotten out of the stage——

Dr. PHILLIPS. They have entered repayment status and are due and payable over an extended period of time.

Mr. DELLENBACK. And in that sense they are matured?

Dr. PHILLIPS. Right.

Mr. DELLENBACK. Thank you, Mr. Chairman.

Mr. O'HARA. Continue, Dr. Phillips.

Dr. PHILLIPS. The amount of $261 million outstanding on delinquent loans (defined as loans that have been in past due status for more than 120 days) represents the amount outstanding on about $320 million originally lent. It should be noted that approximately $40 million of that amount has been repaid as of June 30, 1973, and about $19 million has been cancelled under various provisions, leaving $261 million outstanding. Of that amount, approximately $90 million is the amount of payments that are actually past due as of June 30, 1973. Since a substantial part of the amount due to date has been collected or canceled, it is reasonable to expect that a substantial portion of the $261 million outstanding will also eventually be collected.

At this date, the only amounts which institutions can legally collect on delinquent loans are those portions of each borrower's loan that are actually past due as of June 30, 1973; i.e., the amount of approximately $90 million.

An unknown number of institutions do include in their NDSL notes the Office of Education's recommended provision that if the borrower becomes delinquent in his payments, the entire amount outstanding may be declared due and collectible; however most institutions have been reluctant to exercise this provision even if it is included in the note, because the demand for payment of a large sum at one time is often ineffectual in securing payment from a borrower.

Therefore, only about $90 million could have legally been collected on the delinquent loans as of June 30, 1973, rather than the entire bill $261,000,000 outstanding. (An additional $12 million is past due, and could have been collected, on loans that have been in past due status for 120 days or less.)

We are trying to use the 120-day measure to make it as comparable as possible with the guaranteed student loan program definition of "default."

Mr. DELLENBACK. You tell us that $490 million is the face value of loans which are payment due. Now what does that mean?

Ms. HOPSON. That is the face value of all loans which are past due as of June 30, 1973.

Dr. PHILLIPS. Including those that are past due for less than 120 days.

Mr. DELLENBACK. Then the $261 million is part of that, but it is those loans which are more than 120 days payment due?

Ms. HOPSON. Right; in other words, approximately $170 million is the face value of loans that are less than 120 days past due.

Mr. Dellenback. How do you get $170 million?

Ms. Hopson. $490 million minus $320.

Mr. Dellenback. I see.

Ms. Hopson. That is why I say the $261 million is compared with the $320 million rather than the $430 million.

Mr. Dellenback. I understand your subtraction. Then it is $170 million which are loans where payment is due but not yet 120 days past due.

Ms. Hopson. Yes.

Dr. Phillips. An alternate method of measuring the extent of delinquency in the national direct student loan program is to determine what amount should have been collected as of a given date, but has not actually been collected, and to compare that amount to the total amount that was scheduled for collection as of that date. This would give you a delinquency rate as distinct from a potential default rate. The program's delinquency rate as of June 30, 1973, is then computed as follows, again based on the unedited data.

Cumulative principal amount collected	$535,000,000
Cumulative principal amount canceled	220,000,000
Principal amount in past due status	102,000,000
Principal amount in deferred status	6,000,000
Total amount due and collectible	863,000,000
Principal amount past due on delinquent loans	[1] 90,000,000

[1] $90,000,000 divided by $863,000,000 equals 10.4 percent.

That $90,000,000 is the subpart of the $261 million, as we tried to explain at the top of page 17, which is actually past due, and which results in a delinquency rate of 10.4 percent. So what we try to do here is to give you two measurements of the problem. In potential default, we tried to calculate as much as possible in a comparable fashion to the technique used in the guaranteed student loan program, and then what is perhaps a more useful measure in terms of the NDSL program itself, the delinquency rate of 10.4 percent.

Mr. Spearman. You might want to point out the $6 million is not the amount actually lent. You are actually dealing with $30 million there. You generally have a period of at least 2 years in deferred status, so we estimate that if 10 percent of the principal outstanding would have been paid each year, if the student were not in deferred status, on a basis of 10 percent times 2, roughly 20 percent, you come up with $6 million; but the actual amount lent is $30 million.

Dr. Phillips. In interpreting the potential default rate, it should be pointed out that NDSL's are normally made without security or endorsement and without credit check. In contrast to the guaranteed student loan program, the institution must make loans reasonably available to all eligible students in the institution in need thereof.

Corrective action

Two significant actions have been initiated which should enable the Office of Education to improve in the collection of delinquent loans. First, OE, in conjunction with the National Association of College and University Business Officers, has in recent years held a series of regional training workshops on loan collection procedures. OE has also identified that 10 percent of the total number of participating institutions which had the highest delinquency rates as of June 30, 1972.

Special efforts are being made through our regional office staffs to improve the collections at these institutions.

Subregional workshops have been held. The regional and State groups of NASFAA have held and are holding workshops, and many universities themselves have held workshops on collection procedures.

The second initiative resulted from congressional action amending certain provisions of the National Defense Education Act. For example, the Higher Education Act of 1965 included the following features:

1. Provision for routine administrative expense and for other collection costs;
2. Reduction of the grace period from 12 months to 9, and provision for monthly, bimonthly, or quarterly repayments instead of annual repayments;
3. Provision for a $15 minimum monthly repayment at the option of the institutions; and
4. Provision for the assessment of penalty charges for late payments and for the late filing of deferment or cancelation forms at the option of the institution.

These two initiatives are expected to effect significant increases in the NDSL collection rate.

[The attachments to the foregoing statement follows:]

TABLE I.—NATIONAL DIRECT STUDENT LOAN PROGRAM

	Fiscal years [1]—																
	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Original request [2]	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	243,090	270,000	292,235	330,158	387,165	533,531	678,536	732,208
Approved funding levels [2]	62,000	40,380	61,200	97,600	111,700	122,000	137,100	187,000	213,500	230,236	246,430	268,050	283,380	337,154	454,069	576,970	563,175
Total Federal funds available [2]	30,883	40,393	57,474	73,845	90,000	121,168	145,000	179,300	190,000	190,000	190,000	188,785	236,500	286,000	286,000	286,000	286,000
Institutional capital contributions [2] [4]	3,423	4,512	6,582	8,155	10,058	12,031	14,448	20,120	19,836	20,016	20,629	21,660	25,278	31,778	31,778	31,778	31,778
Collections [2] [4]	10	459	1,505	3,434	6,386	10,860	16,563	23,198	31,517	42,420	57,198	73,234	90,000	110,000	130,000	150,000	170,000
Funds advanced to students [2] [4]	9,502	50,152	70,963	89,102	103,732	119,536	166,608	214,334	220,399	237,174	242,681	240,518	364,247	411,502	430,919	464,900	470,725
Administrative expense [2] [4]									4,205	4,338	6,197	12,716	10,955	12,345	12,928	13,947	14,122
Number of students [4]	27,683	115,450	151,068	186,465	216,930	246,840	319,974	343,276	400,531	434,088	455,998	452,144	561,800	614,200	624,500	674,000	682,000
Average loan [4]	343	434	470	478	478	484	522	568	561	521	540	532	650	670	690	690	690
Number of institutions	1,196	1,359	1,412	1,470	1,528	1,560	1,616	1,639	1,694	1,739	1,818	1,867	2,092	2,186	2,293	2,639	2,800
Average award per institution	28	30	41	50	59	78	90	109	112	109	105	101	113	131	125	108	102

[1] Year beginning July 1 and ending June 30. Year in which funds are available regardless of the year for which appropriated.

[2] Thousands of dollars.

[3] Not available.

[4] For fiscal year 1959 through 1970, entries are actual as taken from annual fiscal operations reports. Fiscal year 1971 through 1975 entries are estimated.

TABLE II.—NATIONAL DIRECT STUDENT LOAN PROGRAM—FISCAL YEARS 1974 AND 1975 FUNDING

	Panel recommended	State allotment	State percentage	Number of institutions participating	Average institution award	Number of students [1]	Average Federal per student [1]
FISCAL YEAR 1974							
California	$70,094,673	$30,974,383	44.189355	263	$117,773	66,600	451
Florida	12,436,699	7,857,268	63.178082	57	137,847	17,400	451
Illinois	29,453,453	14,259,807	48.414720	112	127,320	31,700	451
Indiana	19,021,120	7,505,689	39.459763	43	174,550	16,600	451
Michigan	25,450,022	12,717,572	49.970770	101	125,917	27,500	451
New York	55,491,249	23,769,772	42.835172	212	121,122	52,600	451
North Carolina	11,086,084	6,784,369	61.197163	87	77,981	15,000	451
Oregon	8,997,498	3,945,685	43.853135	38	103,834	8,600	451
Pennsylvania	23,008,976	14,267,339	62.007709	134	106,473	31,600	451
Puerto Rico	4,596,076	2,191,555	47.683175	9	243,506	4,900	451
FISCAL YEAR 1975							
California	68,182,650	31,122,641	45.645983	278	111,952	73,500	419
Florida	12,277,159	7,862,252	64.039669	58	135,556	18,700	419
Illinois	27,040,474	14,293,720	52.860463	121	118,130	33,900	419
Indiana	14,410,978	7,513,543	52.137634	49	155,337	17,900	419
Michigan	20,282,599	12,711,953	62.674181	102	124,627	30,300	419
New York	49,239,364	23,846,823	48.430404	240	99,362	56,600	419
North Carolina	10,852,022	6,790,039	62.569344	77	88,182	16,200	419
Oregon	15,899,167	4,036,995	25.391235	40	100,924	9,500	419
Pennsylvania	22,152,776	14,273,549	64.432326	136	104,952	33,600	419
Puerto Rico	6,252,552	2,379,421	38.055197	9	264,380	5,500	419

[1] Estimated.

Dr. PHILLIPS. At this point, Mr. Chairman, I will be pleased to answer questions from members of the subcommittee. I might also refer you to the tables and suggest that if you have any questions about the data set forth there, I would be happy to try to unravel them for you.

Mr. O'HARA. Thank you, Dr. Phillips. If you will refer to the bottoms of page 17, you indicate $102 million is the principal amount in payment due status and $90 million is payment overdue by 120 days or more. Is that it?

Dr. PHILLIPS. Yes.

Mr. O'HARA. Is that the difference between the $90 and $102?

Ms. HOPSON. Yes.

Dr. PHILLIPS. That is right; as we mentioned earlier, the $12 million is the amount that is past due on loans that have been in past due status for less than 120 days.

Mr. O'HARA. Right.

Mr. Brademas, would you like to ask some questions?

Mr. BRADEMAS. Thank you, Mr. Chairman.

Thank you very much, Dr. Phillips, for what I think is a most useful summary of the history and operation of the NDSL program and, from my point of view as a longtime champion of the program, a most encouraging one. Indeed, as one who is very interested in building bridges around this town these days. I am going to send a note over to Secretary Weinberger asking him to get acquainted with Mr. Ash to let him know how enthusiastic the Department of HEW is about the operation of this program. I ask unanimous consent to include the editorial in the record. I take it you have read the editorial?

[The editorial referred to follows:]

[From the New York Times, May 28, 1974]

The Student Aid Hoax

The inflationary rise in college tuition is a direct threat to higher education for students from poor as well as middle-income homes. In the public and the private sector, costs to the student are mounting astronomically. Yet the Federal Government seems determined to accelerate the inflationary trend.

Three years ago the Carnegie Commission on Higher Education recommended a formula to aid students and institutions simultaneously. Modeled on the concept of a guaranteed annual income, it would automatically entitle to scholarship aid any college-age student whose parents' income is below a set minimum. At the same time, every college would receive a cost-of-education grant for each federally subsidized student.

The Nixon Administration subsequently incorporated this sensible plan in its 1972 higher education aid package. Although approved by Congress, the program has never been fully funded.

Now the administration has asked for the full funding of the Basic Opportunity Grants (B.O.G.) at a level of $1.3 billion, while not only scuttling other important grants and loans, but without making any provision for cost-of-education grants to institutions—a fatal defect.

The plan to link aid to the students and to institutions is a tandem that cannot run successfully on one wheel. Aid to students does nothing to solve the institutions' budget problems. The colleges' only alternative then will be to raise tuition, thus wiping out the gains promised to the students.

What makes the Administration's piecemeal approach to the problem particularly deplorable is that fact that the original prescription had been so sensible and so easy to implement. The elimination of institutional aid turns a constructive proposal into a cruel hoax. The effect will be a mirage of new student aid that will evaporate into the thin air of inflation, while the colleges' economic foundations crumble.

Dr. Phillips. I have not.

Mr. Brademas. Let me quote a couple of points. One is more directly related to our purpose this morning than is the other.

It is a very sharp attack on the administration for its failure to provide for any cost of education grants to institutions while at the same time asking for full funding at a level of $1.3 billion of the BOG program and I would share in that criticism. That may well be a matter to which we may want to address ourselves at some point this morning, but the other point made in this editorial, Mr. Chairman, is to use the language of the *Times*, that the administration is proposing to scuttle—to use its verb—other important grants and loans.

I think it is significant, perhaps, Mr. Chairman, that in this testimony of Dr. Phillips, in which, on page 12, he remarked that the analysis of the 1970 operation reports indicates that the NSDL program is achieving its goal of helping needy students meet the costs of postsecondary education, that there is no indication the administration is proposing to kill this program.

Do you have a comment on that observation?

Dr. Phillips. I think, Mr. Brademas, our purpose at this point was to offer a summary of the background information about the program, its history, operations, and formal evaluations that have been done on it, and not to talk at this point about the trade-offs or policy choice that have to be made in order to reconcile all student aid programs with budget limitations.

Our hope was to provide you with a basis of discussion for this committee and not to get into those policy issues at this time.

Mr. O'Hara. Will the gentleman yield?

Mr. Brademas. Yes.

Mr. O'HARA. Those were the ground rules under which they were asked to testify.

Mr. BRADEMAS. I appreciate that and don't want to get at odds with my chairman. I was not a signatory to the treaty; therefore I don't feel altogether bound by it.

Mr. O'HARA. If you will yield further for a moment, we have encouraged the Office of Education and the Commissioner to not come up with policy recommendations at the beginning of this subcommittee's work on reviewing title IV, but rather to explore the operation and ramifications of title IV with us and then, when we have completed that work, to sit down with us and see if we can reach some agreement.

Mr. BRADEMAS. In that event, Mr. Chaiman, I will simply make a further observation on the point I was making, not ask the witness to comment, and then I have two other questions I would like to put to the witness, if I may, simply, so that, as we so rarely meet, Dr. Phillips and I don't want this opportuntiy to go by—I would point out that in your own, as I reiterate, very valuable testimony, you have noted how this program is achieving its goal and on page 11, to quote you, you say, "The demand for the program has increased steadily throughout its history," and on page 12 you say, "An estimated total number of 752,900 participants are in the program during 1973–74, 91 percent of whom are undergraduates."

And then you understand why, if we are doing so splendidly in this program, why people like me get nervous when efforts are made to say "Goodbye, students; go off to that nice 12 percent private market."

Now, Mr. Chairman, having unburdened myself of my editorial——

Dr. PHILLIPS. If I may, I should like to point out that the figure quoted was an estimate made by the American Council on Education. We are simply reporting that figure. We are not sure of its accuracy and we are going to be working to verify or modify it as we collect data this year.

Mr. BRADEMAS. I appreciate that. I just have two areas of questioning then, Mr. Chairman.

Dr. Phillips, on page 14 of your statement, you remark on the small number of institutions in a completely revolving status and suggest that this fact is probably attributable to three factors. Then at the bottom of the page you indicate that there is no discernible trend which makes it possible to identify by type those institutional characteristics which are responsible for the 150 institutions that have achieved this status.

Can you give us any judgments at all as among those several factors which you feel may be more significant in making possible the achievement of a completely revolving status?

Dr. PHILLIPS. Well, I think they all really interrelate and each institution is quite different. You have an expanding enrollment and/or expanding costs in institutions which place expanded demands on available loan funds, and that can, as you know, simply eat up the funds at a very rapid rate.

And you have a 10- or 15-year period, in effect, before they can completely restore the money to the revolving fund.

The erosion of the fund caused by cancellation and deferment provisions interact here in a way which simply causes leaks from the fund, and as we tried to point out, the collections problem is a very real one and one we feel has to be recognized, acknowledged and attacked directly and not skirted around.

Mr. **Brademas.** Let me turn my question on its head and put it to you the other way. Given that these three factors are interrelated and there may indeed be other factors, what are the factors that in your view most significantly account for the very large number of institutions that have not been able to achieve completely revolving status?

Dr. **Phillips.** Well, I expect that it has to do with the fact that they can't catch up with demand, based on the annual availabilities of Federal capital contribution, and suffering from leakages I mentioned, and that they are having trouble catching up with the collection problem.

Perhaps I am not focusing properly on your question, and maybe you are trying to lead me in a direction.

Mr. **Brademas.** I am not trying to lead you anyplace. You are running the program and I would like to know what you think your headaches are to enable us as legislators to come up with a proposal to help you do it better. It is a very simple, straightforward, commonsense question.

Dr. **Spearman.** If I may comment?

Mr. **Brademas.** I know that you have a lot of headaches but what I want is your professional judgment on which headaches are more troublesome than others. I think that is a reasonable question.

Dr. **Phillips.** Sure it is.

Dr. **Spearman.** I think I would like to approach it from two perspectives.

One, we attempted to isolate the 150 institutions and examine the 150 institutions and be able to report to you that for the most part private institutions have developed this, or public, and so forth, and we found that there was no significant trend that we could identify here.

Mr. **Brademas.** I understand.

Dr. **Spearman.** I think the second point is the peculiarities of the program itself. I think all of us will agree the NDSL program has a peculiarity in its total repayment mechanism. Too, it does require institutional financial aid offices. There is a greater demand on their time to operate this program than any other program, perhaps, primarily because the number of forms are there, the grace period and cancellation provisions are there, so the institutions themselves have difficulty.

I suspect if we would look at a more recent study that has come out by the Educational Testing Service, on NDSL, and these results are tentative and should be released appropriately in a month, it would clearly point out that the degree to which this program is effectively administered, may highly relate to the degree in which the institution in and of itself has capable internal management.

Mr. **Brademas.** I think that is a very important point and leads me to raise the question, Mr. Chairman. I think you told me there are two major problems. One is the collection problem to which reference has just been made and the other is demand which in plainer English means that there is not enough money.

Let's turn to the collection problem for a moment. If the matter of management is that crucial, would it not be wise, given the magnitude of the moneys involved, for you, at OE, and for us on this committee, to pay much more attention to zeroing in on that particular problem?

Maybe we ought to channel a modest percentage of funds into the question of improving institutional management of the program, with a particular eye toward collection, otherwise we are missing the point.

Mr. O'Hara. Will you yield?

Mr. Brademas. Of course.

Mr. O'Hara. Perhaps some light was shed on that question by another study they did, that they mentioned in their testimony. They indicated they were not able to identify the characteristics of the 150 institutions that were able to go on a fully revolving basis.

You also identified the 10 percent of the institutions having the highest delinquency rate, so you indicate in your testimony. Were you able to identify the characteristics of the 10 percent?

Ms. Hopson. One thing we did find out was that something like 30 percent of them were in our Federal region IV. Then we also found out that the predominantly black institutions were a large part of that number.

Mr. O'Hara. Of the 10 percent having the highest?

Ms. Hopson. Yes.

Mr. O'Hara. Have you determined between public, private and proprietary?

Ms. Hopson. It was really spread all over, the distribution of the institutions except for those two characteristics.

Dr. Phillips. It would be hard to draw any conclusions about proprietaries because they have been in the program for such a short period that not many of their loans have entered repayment where we would have a firm history on the collection activities.

Mr. Brademas. Have you considered as an alternative, and I am not saying I advocate this, but in that you indicated the institutional management problems on collection, particularly, being a major headache, simply saying that rather than the institutions being charged with the responsibility for collecting, that OE should take on that job.

Mr. O'Hara. You have a lot more confidence in OE than I do.

Dr. Phillips. I think you can safely say we have not considered that alternative seriously as yet, other than for loans that may eventually be returned to OE under the 1972 amendment.

Mr. O'Hara. IRS, maybe.

Mr. Brademas. In any event, there is an area worth further discussion. I have one other question, Mr. Chairman.

One—well, I no longer have confidence in IRS like I used to have, also, just so the record may be clear.

You told us of something of the default rates here, which is a concern of yours and of ours. But have you made a study to compare default rates in the NDSL and GSL programs with default rates on SBA loans or, to be more exciting about it, Fannie Mae loans?

Dr. Phillips. No; we have not conducted such a study at this point. We have been trying to do something.

Mr. Brademas. Don't you think it is a useful thing to do?

Dr. Phillips. I think it might be. However let me say that the effort to take very different pieces of legislation and have different standards for making loans and then try to develop a method to get true comparability of delinquency rates or in this case potential default rates, that is a major task by itself. We spent a good deal of time this spring working with computers and so on, just to get this far. I think that even this analysis is subject to some criticism as being not perfectly comparable or compatible with GSL analysis and I think to try to extend it to other quite different loan progrms, while it might be kind of instinctively helpful, it might get us into so many complications of comparability of data that it would be self-defeating.

Mr. COOKE. I might add one point on that, to compare it to SBA or Fannie Mae, you run into a problem where they have an asset which you couldn't claim, a security, which you don't have here at all, so it throws in an aspect which makes it hard to compare.

Mr. BRADEMAS. I think your admonitions are well taken and I raised the question largely because there has been, ~~at least~~ I observed during the 1972 conference, a good deal of moralizing with respect to students as if students are somehow less to be trusted than other sectors of the society and I am not altogether sure that that is the case.

Let me ask a final question. Dr. Phillips, you have said in your testimony, in effect, that there are two different ways or two alternative ways to calculate default rates, that is on pages 16 and 17 of your statement, and one way you say leads to a 14.2 percent rate and another method gives us a 10.4 percent rate. That is interesting to me.

Then you go on to tell us that, by the way, that two significant actions have been initiated, one in the executive branch and one in Congress, that you say should enable OE to improve its collection of delinquent loans.

I believe that is right?

Dr. PHILLIPS. To assist the institutions in improving their collections.

Mr. BRADEMAS. Yes. All right, that is fair enough. That is what I mean. Then you conclude, on page 19 of your statement, that these two initiatives are expected to effect significant increase in the NDSL collection rate.

You know, you took an awful lot of prose there to tell us that things are not quite as bad as they may have appeared at the outset.

Dr. PHILLIPS. Well, with respect to your question about two different rates, the difficulty here, as I am sure you are aware, Mr. Congressman, is that there really is no default in the NDSL program at present. There was not a provision for the same kind of default action at a certain point in time that there is in the guaranteed student loan program until the enactment of the Education Amendments of 1972. So what we tried to do was, in effect, to build a model for bringing that in, for estimating a potential default rate in terms of the basic program and its language and its intention and its statutory alignments, the 10.4 percent rate being, the one which suggests the dimensions of the problem in terms of our day-to-day administrative efforts.

We have had repeated requests, both from the Congress and from other parties, to do some kind of analysis which would suggest a rate which would be comparable to the default rate in guaranteed student loans and this is our effort to respond to that request. It is awkward, it is difficult, it is subject to criticism for being either artificially high or low and so on, but this is the best effort we could put together to try to give you something to work with, an estimate of the range of the problem.

We do want to do a better job, and we do want to help institutions to manage these things better so we can bring them closer to a revolving fund status at the earliest possible time.

Mr. BRADEMAS. I appreciate that response, and your salutary, though, not altogether convincing effort to distinguish the two.

Dr. PHILLIPS. Right.

Mr. BRADEMAS. The point I am getting at of course is here you give us two different ways of measuring which come up with significantly different percentages and then you tell us, "and moreover, but despite these default rates we are moving ahead to deal with these default rates," and "here are two ways in which we are moving", and "we are very hopeful"; you say "by utilizing these methods to effect significant increase in the NDSL collection rate."

I am just quoting your prose and I hope I am not an unreasonable person in concluding that the house is not burning down.

Dr. PHILLIPS. I guess that is a fair statement, that the house is not burning down, but our own feeling is that we have a good deal of work to be done to make sure that we do control the rate of delinquencies and/or potential defaults in this program.

Mr. BRADEMAS. Well, I happen to agree with that and that is why I was trying to get from you more guidance on what you thought the real problem areas were earlier in my questioning.

Dr. PHILLIPS. I think Dr. Spearman's comment about the emphasis on assisting in improvement of management at the institutional level is perhaps the most important message.

Mr. BRADEMAS. Thank you, Dr. Phillips.

Mr. O'HARA. Do you have any figures? You have given us figures with respect to delinquency rates and that is essentially what they are, I guess, delinquency rates. Then you make a projection and I am not sure it is a sound one, that all those who are delinquent over 120 days will become defaulters and none of those who are not delinquent over 120 days will become defaulters and I am not sure those are valid assumptions, but in terms of delinquency rates, do you have any information to indicate the percentage of borrowers that might be over?

Dr. PHILLIPS. As opposed to dollar figures in delinquencies?

Ms. HOPSON. Yes.

Mr. O'HARA. If you could do it on a comparable basis that would be useful.

Ms. HOPSON. Right.

Dr. PHILLIPS. You mean numbers of loans or numbers of borrowers; do you want individual borrowers; a calculation on their total loan amounts?

Mr. O'HARA. No. Numbers of borrowers and numbers of loans.

Dr. PHILLIPS. We can get the borrowers, unduplicated accounts of borrowers?

Ms. HOPSON. Right.

[The document referred to follows:]

TOTAL NUMBERS OF NATIONAL DEFENSE/DIRECT STUDENT LOAN PROGRAM BORROWERS WHOSE LOANS ARE IN POTENTIAL DEFAULT STATUS AS OF JUNE 30, 1973

The following statistics are based on unedited data collected from the Fiscal Year 1973 fiscal-operations reports of 2,148 institutions, out of a total participant group of 2,300. For purposes of this calculation, "matured loans" are all loans made in the program through June 30, 1973, minus those loans which have not yet reached repayment status because the borrower is still in school or is in his grace period. The number of borrowers in potential default status as of June 30, 1973, is then computed as follows:

Borrowers whose loans are fully retired	457,000
Borrowers in deferred status	29,000
Borrowers on schedule in repayment status	1,009,000
Borrowers whose loans are pas due	539,000
Total borrowers whose loans are matured	2,034,000
Borrowers whose loans are delinquent (past due more than 120 days)	[1] 371,000

[1] 371,000 divided by 2,034,000 equals 18.2 percent.

This method of measuring the potential default rate in the National Defense/Direct Student Loan Program, in terms of the number of borrowers, produces a somewhat higher rate than that obtained by measuring the amount of potential default, primarily because the measurement of amounts distinguishes between the amounts repaid and the amounts outstanding on past due loans, while it is impossible to apportion the number of borrowers whose loans are in past due status in a similar manner. It should also be noted that some students who are behind schedule in the repayment of their loans are currently making partial payments, but the report data do not distinguish those students from other delinquent borrowers.

The Office of Education has not collected statistical information (such as racial/ethnic distribution, sex distribution, and family income levels) on delinquent borrowers separately from all borrowers. Therefore, there are no readily available quantifiable data on the characteristics of delinquent borrowers.

An analysis of the unedited data from the Fiscal Year 1973 reports does show (a) that the average loan for borrowers whose loans are fully retired is lower than for any other subgroup of borrowers and (b) that in dividing the subgroup of delinquent borrowers by the length of time that their accounts have been past due, the average loan decreases as the length of time that the account has been past due increases. However, those conditions are apparently not related to the fact of delinquency but result instead from the fact that the average loan has increased significantly over the program's history.

Mr. O'Hara. I would be interested in what, if anything, you have been able to find out about the characteristics of defaulters, defaulting borrowers as compared to characteristics of the full population of borrowers. Have you done any investigation of that?

Dr. Phillips. The thing is, we are working off institutional reports and the report on the total universe of borrowers in one section, their characteristics and then report on the collection problems in another section and I don't believe there is a subsample of borrowers in delinquent status which we could identify.

Mr. O'Hara. I was wondering if sampling techniques might be useful. You have a bit of information about your universe of borrowers because you have given some of it in your statement about their income levels, rather, their minority group status, and other characteristics and I am wondering if you could take a sample which could even be a relatively small sample. People are able to sample voters in my congressional district by interviewing say only 200 or 300.

Dr. Phillips. I think Mr. Rowe would like to respond.

Mr. Rowe. Mr. Chairman, part of the process that we have asked the regional office staff to follow through on, on the 10 percent of the participations who are showing a high rate of delinquency at this time, is to assist those institutions to do exactly what you are suggesting, make an analysis of accounts, trying to get a profile of the kinds of delinquent situations, which would run the whole spectrum.

We had also previously done this with a selected group of institutions, approximately 5 years ago, and found that the range of reasons for delinquency are slow pay, in some instances, and that there are nevertheless a certain number of students, of former students, who have some rather hard conditions which exist which in essence make the loan virtually a bad debt.

Mr. O'Hara. I would like to sit down and have my staff sit down with some of you people later on and to see if there is something we can do. I have some suspicions, some intuition about how we might improve the program and I would like, if the date is available, I would like to see if that data can be used to check them out.

Dr. Phillips. I think we could probably formalize the effort to analyze the delinquency population in those high-delinquency-rate institutions and perhaps, without a great expenditure of limited resources, be more responsive to that question.

And I look forward to meeting with your staff and yourself about it.

Mr. Brademas. May I ask this: At that point, Dr. Phillips, would you have a comment to make on whether or not any significant amount of defaults can be attributed to lack of understanding on the part of the teachers on the operation of the teacher's forgiveness certificate necessary for teachers?

Dr. Phillips. I think I should ask someone to respond who has a longer identification with the program.

Mr. Rowe. I think there is some evidence on doing an analysis of accounts of a delinquent that some of that delinquency is due to the fact that the student has to file a certificate that they are teaching, and with a proper followup, the individual will file a teacher's certificate or a student deferment certificate.

Mr. Brademas. So the default in that case is really more apparent than real?

Mr. Rowe. It might well be; yes.

Mr. O'Hara. I want to go into some things like the delinquency rate on large loans as opposed to small loans, the delinquency rate on loans to borrowers who also have a work study job as compared to delinquency rate on borrowers who don't also have employment, and so forth and so on.

I think we might be able to find out some things that we could then use to improve our package in a way that would cut down our problems.

Mr. Andringa has suggested, and I think this is a good question, that we ought to inquire about the extent to which these institutions are using banks or others as collection agents for these loans and what the cost of servicing the loan this way commonly runs and any other information you can give us.

Dr. Spearman. In the study done by the Educational Testing Service the question was raised, "Are you presently using a commercial billing service on a regular basis?" and of 1,400, 895 answered "No" and 568 answered "Yes."

Dr. Phillips. That is 568 on the basis of 1,400?

Dr. Spearman. Right.

Dr. Phillips. That is 30 to 40 percent.

Mr. O'Hara. Under the law.

Dr. Phillips. Also you asked about cost?

Mr. O'Hara. Yes, any information about what it is costing them.

Dr. Phillips. $9 to $12 per account per year.

Mr. O'Hara. You don't have it in percentage terms?

Dr. Phillips. No, because it would not be dependent upon the size of a loan account; it would be dependent upon the number of loans, the actual loans that are being serviced.

Mr. O'Hara. All right.

Dr. Spearman. Mr. Chairman, I might add in that same study a question was raised, how effective are commercial billing services in handling these loans?

I think to introduce the answer there is extremely important here; 105 reported "very effective" and 104 institutions reported "not very effective;" 1,000 institutions did not answer.

Dr. Phillips. Of course of that 1,000, over 800 were not using them. That is not a bad sample.

Mr. O'Hara. Under the law, are institutions permitted to sell these, sell their notes, to discount their paper and sell it?

Mr. Rowe. No; under the law they are not allowed to assign the notes, unless the borrower transfers to another eligible institution, although, in the 1972 amendments, the law was changed to allow institutions to assign the notes to the U.S. Office of Education after the loan has been in default for a 2-year period in which due diligence had been performed by the institution in its collection effort. At the end of that period they could assign the note to the U.S. Office of Education.

Presently, we have not had any notes assigned to us.

Mr. O'Hara. I am wondering what the effect would be of permitting institutions to, in effect, sell their paper and what the effect would be at the current NDSL interest rate or what the effect would be at an increased NDSL interest rate.

Dr. Phillips. It is a little hard to imagine it would be an attractive note for discounting.

Mr. O'Hara. You would have to discount it quite a bit under present circumstances.

Dr. Phillips. But I think that is a general question which probably could come up in connection with the guaranteed loan program where that option does exist, and we might be able to get some indication from that experience as to how it might relate to other loan programs such as this one.

Mr. O'Hara. Fine.

Dr. Spearman. There might be a slight disincentive because you are dealing with only 90 percent Federal contribution and 10 percent of their money, and the incentive might be somewhat weakened because they can use that money that was collected.

Mr. O'Hara. But they might in terms of a revolving fund. Let's suppose we had an 8 percent interest rate on direct student loan funds and let's say they could discount the things by 8 percent and sell them; in other words, they would just be able to revolve their principal all the time there, if they could do that.

Dr. Phillips. Here you get into larger questions about how the whole student loan marketplace ought to operate.

Mr. O'Hara. Right.

Dr. Phillips. And it relates not just to this program.

Mr. O'Hara. I know, but in terms of this revolving fund thing, it has a special wrinkle to it. They are not trying to make money and indeed, if all they are trying to do is have a revolving fund, then maybe there are devices in which they can be assisted in doing so.

Dr. PHILLIPS. I think we would be happy to explore those kinds of options with the committee.

Mr. O'HARA. I have compared the College work study program State allotment percentage with the direct student loan State allotment percentage.

Dr. PHILLIPS. In Michigan perhaps?

Mr. O'HARA. Well, let's see. I didn't look at Michigan particularly. It is on the list, though. Because, you see, two very different kinds of formulas are used, as you well know—the work study formula feeding in things about the number of high school graduates in a State and other factors in addition.

Dr. PHILLIPS. Low income families and so on.

Mr. O'HARA. Right. It would appear, well, I don't know if you have any observations about the comparison, apparently not—well, you have Indiana which Mr. Brademas would be interested in. Indiana gets 40 percent of its panel-approved funds under the direct loan program and in fiscal year 1974 and 68 percent under the work study program. That is panel approved.

In others, the differences are—you know, different.

Dr. PHILLIPS. Yes. I think as we tried to suggest when we appeared before you in connection with the work study program, the State percentage formula exists and operates pretty much independently from any assessment of the need within a given State for the funds, except for the portion of the 10 percent funds to which regulatory authority applies.

Mr. O'HARA. Except the panel judgments within a State pretty well reflects the need.

Dr. PHILLIPS. That reflects the need, but the relationship of that need to the actual amount that goes into the State, they are largely independent variables.

Mr. O'HARA. I was wanting to see if the one State allotment formula worked any better than the other and I see that neither of them worked exceedingly well.

Ms. HOPSON. One difference between NDSL and Work-Study in the funds awarded for the upcoming year is that the operation of the regulatory and statutory provisions differ, because the NDSL amount available was not sufficient to get to the point where every State could be brought back to its 1972 level. Therefore the funds available, with the exception of a few States, went out almost precisely as in 1972, whereas in work study, for instance, the portion of 10 percent funds remaining after raising all States to their 1972 level was not extensively in 17 States and that altered the amount of money going into those States, whereas that didn't happen in NDSL.

Dr. PHILLIPS. Incidentally, this fiscal 1974 funding is for 1974–75 operations.

Ms. HOPSON. No, that chart is done on the basis of the year of operation, the one attached to the testimony.

Dr. PHILLIPS. So actually table II–A is fiscal year 1973 funding and that is 1973–74 operations, and table II–B is fiscal year 1974 funding and 1974–75 operations.

Ms. HOPSON. Right.

Dr. Phillips. We often have those confusions, and it is good to get it cleared up, so it is this year and next year.

Mr. O'Hara. I guess we want to get on to the guaranteed loan program and we may have further questions—I am sure you understand that—which we will direct to you.

We would like to try to work with you to determine the characteristics of the defaulting borrowers to see if there is some way to effectively reduce default rates.

Dr. Phillips. Before I leave the witness table, I would like to deliver to you copies of the new student affidavit form which we have developed in consultation with legal counsel over the last several months and which are now in the hands of the institutions, which we hope, for the first time, will permit a student to fill out a single form and with that form meet his affidavit requirement in basic grants, supplemental grants, work study, NDSL, and guaranteed student loan programs.

I though you would perhaps like to have it now for your reference.

Mr. O'Hara. We would appreciate having it.

Dr. Phillips. We are trying to rationalize the operation of these programs and I thought this might be of interest to you.

Mr. O'Hara. I thank you. We appreciate that.

Dr. Phillips. Thank you.

Mr. O'Hara. Our next witness is Mr. James W. Moore, Acting Associate Commissioner of the Office of Guaranteed Student Loans, Office of Management, U.S. Office of Education. Mr. Moore is accompanied by Mr. Charles Cooke, Deputy Assistant Secretary for Legislation (Education), Mr. David Bayer, Assistant Director, Office of Guaranteed Loans, and Ms. Alice Hansen, Chief of the Reports Section, Office of Guaranteed Loans.

Mr. Moore, we would appreciate very much hearing from you on the guaranteed loan program.

STATEMENT OF JAMES W. MOORE, ACTING ASSOCIATE COMMISSIONER, OFFICE OF GUARANTEED STUDENT LOANS, OFFICE OF MANAGEMENT, U.S. OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY CHARLES M. COOKE, JR., DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION); DAVID C. BAYER, ASSISTANT DIRECTOR, OFFICE OF GUARANTEED LOANS; AND ALICE F. HANSEN, CHIEF, REPORTS SECTION, OFFICE OF GUARANTEED LOANS

Mr. Moore. Mr. Chairman and members of the subcommittee, it is a pleasure to be here today and to review with you the history and operation of the guaranteed student loan program—GSLP. The following statement is intended to be a brief overview of the program's establishment and operation.

I. Legislative History

A. Guaranteed student loan programs prior to the Higher Education Act of 1965.

During the period 1954 to 1965, 17 States enacted legislation to create State-guaranteed student loan programs. Under these programs, a guarantee loan reserve fund was established into which State appropriations and/or private contributions were deposited to be used as a guarantee for loans from commercial lenders made to students primarily attending institutions of higher education.

Typically, the interest rate was fairly low, a needs test was required, and repayment of the loan was deferred until the student had completed school. The usual ratio of reserve funds deposited to loan principal outstanding was 1 to 10 but did range as high as 1 to 33. In addition, a State interest subsidy was paid to lenders on behalf of students in both New York and Louisiana. All 17 of these programs are still in operation today.

United Student Aid Funds—USAF—a private nonprofit agency, was established in 1960. Under this program, colleges and universities could make deposits in the USAF reserve fund on the basis of which USAF would guarantee a loan made by a commercial bank to their students at a ratio of 1 to 12½. Some States and private corporations also participated in this plan for the benefit of their residents or employees.

In addition, Wisconsin, Texas, South Dakota, and Florida provided loans made directly to students by the State. The Wisconsin program was established in 1933. The Florida program actually consisted of scholarships made to undergraduates who, upon graduation, were expected to teach in the public schools of Florida. If such service was not rendered, the scholarship had to be paid back as if it had been a loan.

B. The Higher Education and National Vocational Student Loan Insurance Acts of 1965. These two programs authorized by the 89th Congress provided for low-interest, deferred-pay-back, federally subsidized loans made primarily by commercial lenders to students attending institutions of higher education and to students attending public and profitmaking schools both in the vocational and technical education sector.

Loans would be guaranteed by State or private nonprofit agencies or insured by the Federal Government. The acts also extended Federal interest benefits to students receiving loans under direct State loan programs.

The vocational program was a blueprint of the higher education program, with appropriate changes in terminology, and both programs were merged in 1968. The discussion from this point on will deal only with the combined guaranteed student loan program.

Features of the program included a prohibition against a financial needs test for all students whose annual adjusted family incomes were less than $15,000 per year, a maximum statutory interest rate of 6 percent per annum, and a payout period of from 5 to 10 years beginning 9 to 12 months after the student withdrew from or finished school.

The Federal Government paid an interest subsidy of up to 6 percent while the student was in school and a partial subsidy of 3 percent during the payback period. Students from families with adjusted family incomes of $15,000 per year or more were also eligible for loans but without the interest subsidy. The maximum loan amount was $1,500 per year with an overall maximum of $7,500.

The legislation was intended to encourage the formation of additional State agency programs, to continue those already in existence, and where adequate, private nonprofit programs. The direct Federal insurance program was available on a standby basis, to be brought into play only when a public or private nonprofit program did not serve the students in any given State.

To encourage the continuation or formation of State or private loan guarantee agencies, Federal advances of so-called "seed money" were appropriated to create or expand loan guarantee funds within all States. The result was that in 34 States there was a State program, of which 12 contracted with the United Student Aid Funds to administer the program.

In the remaining States, the District of Columbia, and Puerto Rico, the State program was administered by United Student Aid Funds under direct contract with the Office of Education. In both State and Office of Education contract arrangements with USAF, the seed money for those particular States was deposited with United Student Aid Funds. The total appropriation of seed money in fiscal years 1966 and 1967 was $19.4 million, and $12.5 million on a matching basis was appropriated in 1969.

By the summer of 1967, the guarantee capacity in some States had been exhausted due to the total encumbrance of seed money. Since appropriations from these States were not forthcoming, it became necessary in August of 1967 to initiate the Federal program in North Dakota. During the remaining months of 1967 and 1968, additional States exhausted guarantee capacity and invited the establishment of the Federal insurance loan program.

This trend continued until the Federal insurance program operated in 24 States, while 26 State programs were continued. Six of these maintained contract arrangements with USAF. That same administrative pattern exists today.

C. Development of the reinsurance program: Throughout 1967 and the early part of 1968, various committees and advisory groups studied the program to offer recommendations for the solution of two major problems—namely, how to increase the guarantee capacity of the State programs without the additional cost of guarantee funds on the Federal budget and how to increase lender participation in the face of an increasing cost of money, which by 1968 had made 6 percent simple interest an unattractive yield.

In two separate amendments, Congress on August 3, 1969, authorized a rate increase to 7 percent and, effective December 15, 1968, withdrew the 3-percent subsidy during the payout period. Expansion of the guarantee capacity consisted of placing, behind the State and private loan guarantee, an offer of Federal insurance. As a result, the Federal Government would assume responsibility for paying 80 percent of agency losses on the principal amount of loans which went into default.

This had the practical effect of increasing, by a factor of four, the total State guarantee fund deposits already encumbered, whether these came from State appropriations or from allocation of seed money.

For example, assume a State had a reserve or guarantee fund of $100,000 and a reserve ratio of 1 to 10 and that $1 million in student loans had been guaranteed. Under a reinsurance agreement, the Federal Government would assume liability for 80 percent of the losses to be covered by the $100,000 guarantee fund. This would free $80,000 for additional guarantees of $4 million in loans. Twenty-five agencies have signed reinsurance agreements.

The problem of adjusting the yield on the loan to reflect changing money market conditions was somewhat more complicated. There was some interest in allowing the rate paid by the student to, in effect, reflect existing market rates. However, during a period of high rates, student borrowers would be bound during a payout period some years in the future to what then might prove to be a highly inflated rate.

In view of the rapid change in interest rates during 1969, the Congress adopted a special-allowance concept which was designed to provide lenders with an equitable yield after taking into consideration current money market conditions. This additional subsidy was set quarterly on a retrospective basis, providing between zero and 3 percentage points, in addition to the 7 percent, on all loans made and still outstanding after August 1, 1969.

The special allowance has now been paid for 19 quarters and has ranged between a low of three-quarters of 1 percent to a high of 2½ percent during the 2 quarters July to December 1973. These 1968 amendments and the special-allowance legislation contributed immensely to the program's growth during the years 1970 to 1973.

D. Establishment of the needs test: After a brief startup in the summer of 1972, the GSL portion of the Education Amendments of 1972 became effective in March 1973. For the first time, typical financial need analysis procedures were required to determine amounts of loans which would be eligible for Federal interest subsidy.

This resulted in many school recommendations for subsidized loan amounts which either fell below the amounts requested by students or were for a zero subsidized loan. Many students did not apply for subsidized loans because of the needs test requirement and the reluctance of some families to provide the essential financial data.

Loan volume was further diminished by lender unwillingness to make nonsubsidized loans in substantial numbers because of increased administrative costs of billing students for interest during the in-school period as compared with the submission of a single billing to the Federal Government.

Further compacting of loan volume may be attributed to the prevalance of high interest rates which created opportunities for competitively high rates of return to lenders on other types of loans, illiquidity in some lender portfolios, and often the sheer accumulation of student loans in lender portfolios.

In fiscal year 1974, it is estimated that $1.2 billion will be lent in 1 million loans, with an average loan amounting to $1,230. In fiscal year 1972, the last full year in which the preexisting law was in effect, $1.3 billion was lent in 1,256,000 loans, with the average loan amounting to $1,051.

Public Law 93–269, which becomes effective on June 2, 1974, eliminates the needs test for the vast majority of loan applicants. The first wave of informational workshops on implementing the application of this new legislation has already been completed.

Information was distributed throughout the country during the first week in May and we anticipated a reasonably simple and effective incorporation of these amendments into the program on the second of

June. However, the impact in terms of program volume may not be immediately felt because of the current money market conditions.

II. How the program operates: The guaranteed student loan program is designed to make it possible for students to borrow primarily from private lenders to help pay for the cost of education and training at universities, colleges, and vocational schools. Loans are either guaranteed by State or private nonprofit agencies or insured by the Federal Government.

A maximum of $2,500 per academic year may be applied for in most States if the educational costs require borrowing to this extent. Total loans outstanding may not exceed $7,500 for undergraduate or vocational students, and this aggregate maximum may be extended to $10,000 for students who borrow for graduate study.

The repayment period begins from 9 to 12 months after the student graduates or withdraws from school and extends over a period of 5 to 10 years. The student is required to pay a minimum of $360 per year on all the guaranteed loans he has received during his school years. Loans may be prepaid at any time without penalty.

As modified by legislation to become effective June 2, any student whose adjusted family income is less than $15,000 will automatically qualify for Federal interest benefits on loans totaling up to $2,000 in any academic year, although the maximum loan may never exceed the cost of education less other financial aid received.

Students with adjusted family incomes of less than $15,000 who wish to apply for subsidized loans in excess of $2,000 or students having adjusted family incomes of $15,000 or greater and applying for a subsidized loan of any amount must submit to the lender the school's recommendation for a subsidized loan based upon the school's assessment of the family's ability to pay for the cost of education.

For students eligible for interest benefits, the Federal Government will pay to the lender the total interest due prior to the beginning of the repayment period. Students not eligible for Federal interest benefits may still apply for a loan but will have to pay their own interest prior to the beginning of the repayment period. During the repayment period, all students are responsible for paying the 7 percent interest.

An insurance premium of up to one-half of 1 percent each year of the total loan amount outstanding may be collected in advance under State or private guarantee agency programs. By law the premium on federally insured loans is limited to one-quarter of 1 percent. The lender may collect the premium from the borrower or deduct it from the proceeds of the loan.

Repayment may be deferred for up to 3 years while the borrower is on active duty in the Armed Forces, is a Peace Corps volunteer or full-time volunteer in VISTA or certain other ACTION agency programs, or for any period during which he returns to a full time course of study at an eligible school.

There are more than 19,000 lenders participating in the guaranteed student loan program. Banks, savings and loan associations, credit unions, pension funds, insurance companies, and similar institutions subject to examination and supervision by the State or Federal Government are eligible to become lenders. Eligible schools and State agencies may also qualify as lenders.

Approximately 8,200 postsecondary educational institutions are currently eligible for students to attend with loans made under the guaranteed student loan program. Nearly 600 institutions located in 78 foreign countries are also eligible.

Applications for guaranteed student loans may be obtained from lenders, schools, State or private nonprofit guarantee agencies, or regional offices of the Office of Education. The school must complete a portion of this application certifying the student's enrollment, his costs of education, other financial aid awarded, and academic standing.

In addition, other financial information may be required by the school for those sudents who do not automatically qualify for Federal interest benefits. The student completes the application form and presents it to a participating eligible lender.

If the lender agrees to make the loan, he first secures the approval of the guarantee agency. A State or private non-profit agency guarantees the loans to the lender in 26 States. In other States and for interstate lenders, the Federal Government insures the loans. If the student defaults in repaying to the lender, either the guarantee agency or the Federal Government will pursue the borrower for recovery of the loan. If the borrower dies or becomes permanently disabled, the total obligation will be discharged by the Federal Government.

In all cases, the borrower must execute an affidavit that the proceeds of the loan will be used solely for payment of his educational expenses. This affidavit must be signed by a notary public or other person legally authorized to administer an oath or affirmation.

The Office of Education honors claims for reimbursement for losses incurred by lenders on loans insured under the provisions of the Federal insured student loan program due to one of the following conditions:

1. The loan is determined to be in default because of the borrower's failure to make an installment payment when due or to comply with other terms of his note under circumstances where it is reasonable to conclude that the borrower no longer intends to honor his obligation to repay and when this condition persists—in the case of a loan repayable in monthly installments—for 120 days or—in the case of a loan repayable in less frequent installments—for 180 days. The lender must have exercised reasonable care and dilegence both in the making and collection of loans in order to qualify for payment.
2. The borrower has been adjudicated a bankrupt.
3. The borrower has died.
4. The borrower has become totally and permanently disabled and appropriate medical evidence has been submitted by the lender on his behalf.

Also, the Commissioner reimburses to participating guarantee agencies 80 percent of the principal amount of the loss paid by agencies to their lenders on defaulted guaranteed student loans and 100 percent of the loss incurred on all guaranteed loans due to the death or total and permanent disability of the borrower.

These reimbursements are a means of assisting the agencies in maintaining their reserves for the guaranteeing of student loans made by their participating lenders. Of the 27 agencies participating in the guaranteed loan program, 25 have signed reinsurance agreements with the Commissioner.

Under the reinsurance program, there is no subrogation of the loans to the Federal Government, and the agency is required to effect recovery of the loss. State guarantee agencies are required to remit to the Office of Education 80 percent of all money collected from defaulted students on reinsured loans. These collections are deposited in the Student Loan Insurance Fund.

Collections under the Federal insured student loan program are made by 10 regional offices. As soon as an insurance claim is paid on account of default, a demand letter is sent through the computer system to the last known address of the defaulted borrower. Skip tracing procedures include the use of services provided by commercial and Government agencies.

Collections activity consists of sending a series of letters to the defaulted borrower and, if no response is forthcoming, telephone calls are made. If there is not a positive response, personal visits may be made by the collectors. When it is determined that a defaulter has the ability to repay but refuses, the file is prepared for submission to the General Accounting Office for appropriate action, which may include submittal to the Department of Justice for collection or litigation.

All collection efforts are fully documented on the defaulted borrower's file. All payments of money are received and recorded as rapidly as possible and deposited in the Student Loan Insurance Fund.

III. Program status: As of the end of the current fiscal year, an estimated total of $6.8 billion in student loans will have been guaranteed or insured since the inception of the program in 1965. Approximately 4.1 million students will have received loans, and the aggregate number of loans guaranteed or insured should reach 6.9 million. This experience has provided an average loan of slightly less than $1,000. The average loan has increased each year from $752 in 1967 to a current level of $1,213.

Of the $6.8 billion which will have been guaranteed, approximately half of this amount, or $3.4 billion, will have been converted to matured status. The estimated default rate as of the end of fiscal year 1973 was 5.7 percent. This rate is calculated by taking all of the default claims actually paid as a percent of the estimated total amount of matured paper.

There are some early signs that this rate may vary widely among certain classes or types of institutions. We are now in the process of defining these variables through such means as a computerized loan default estimation model.

It should be pointed out that this rate has not been adjusted for collections now being realized on earlier defaulted loans. In the Federal insurance program, the average "cured" default is paid out in approximately 36 months. We will be unable to begin calculation of net loss rates based on actual collections experience until 1976 or perhaps 1977.

Our limited experience to date with collection activities is that a single collection agent in one of our regional offices is able to process 1,100 claims in a year. Of this number, he is able to cure or bring into active pay-back status 400 accounts. The other 700 defaults are periodically recycled until such time as further OE collection is not warranted.

Of the cured accounts, 55 percent are converted to regular monthly payments, averaging slightly more than $30 on a $1,000 note. The remaining 45 percent are paid out on irregular or sporadic schedules and often require repeated contact with the student himself. The State agency collections activity generally follows this pattern.

If the staffing requested of Congress in the 1974 supplemental appropriation and the 1975 regular appropriation for the Office of Education is granted, a collection force of 172 people will be at work next year in the 10 regional offices under the federally insured program.

Under current estimates, we hope that by the end of fiscal year 1976 these collection units will be able to handle every default claim.

It is significant to note that, after payment of the final quarter's interest subsidy and special allowance for the current fiscal year, the total cumulative cost of these two elements will, for the first time, exceed $1 billion.

IV. Improved management: During the past 3 years, the guaranteed student loan program has been studied, reviewed, and analyzed by at least a dozen different agencies, task forces, advisory committees, and consultant groups. The findings, suggestions, and recommendations of these groups, when consolidated, fall into four areas, namely: Recommendations for various programmatic changes, or what I would call external changes, and a series of internal improvements; the need for increased staffing in the program; the provision of appropriate computer support systems; and the need for improved management of the student loan insurance fund.

I should like to note briefly the series of positive steps already taken by the Office of Education to reach new levels of internal operational capability.

Significant requests for additional personnel have been made in the Office of Education appropriations requests now pending before Congress. If these additional support positions are provided, the total Federal staff for the guaranteed student loan program will approximate 530 full-time permanent positions.

For the first time, the number of Office of Education personnel in the guaranteed student loan program will begin to approximate the combined staff of more than 650 persons who operate the 27 guarantee agency programs.

The marked increased in regional staff is to move dramatically on two fronts. The first is an enhanced and expanded pattern of lender reviews directed toward increased lender participation, reduction of defaults, and improvement of the overall administration of the program.

The second is a vastly increased collection effort to recoup as much of the total claims obligation to the Federal Government as possible. As indicated above, this collections activity will ultimately have a pronounced effect on the net loss rate.

A second internal change may be found in the establishment of a new Office of Guaranteed Student Loans. This Office is to have a self-contained data processing systems support group unlike any other unit in OE and is to have all of the other kinds of management resources necessary to carry out improved program operations.

Finally, management of the student loan insurance fund is being improved through a series of contracts designed to upgrade the quality of the data base, sharpen the methodology for estimating liability for future payment of claims, and generally to enhance the fiscal and accounting characteristics of the fund.

Mr. Chairman, I shall be pleased to respond to questions from you and your colleagues.

Mr. O'HARA. Thank you very much, Mr. Moore.

Mr. Brademas.

Mr. BRADEMAS. Thank you, Mr. Chairman.

Mr. Moore, it is good to see you back before our subcommittee again.

Mr. MOORE. Thank you, sir.

Mr. BRADEMAS. Two or three quick questions. I am startled by the description you have given us of the very deep involvement of the Office of Education in the management of collection of insured loans, while, on the other hand, Dr. Phillips recoiled as if in terror at my question about why OE's possible alternative to collection of NDSL loans. Is there some metaphysic that I missed which explains this sharp distinction?

Mr. MOORE. Mr. Brademas, only that—let me back up a little in the history. I think at one time in the mid-sixties we had in mind the possibility of cooperating with some other agency in Government for this collection activity.

We found out, over a period of time, that nobody else was interested in doing it. Last year, I am informed, and this happened before I became involved with the program again, it was also determined that we have no way of contracting or shopping out the collection activity. It simply must be carried on by the Office of Education as program management.

Mr. BRADEMAS. That is as a matter of law?

Mr. MOORE. That is right.

Mr. BRADEMAS. I am not asking about the law. In other words, if we change the law, for example, Dr. Phillips could start collecting on NDSL loans. What I am getting at is substance; put the law to one side for a moment.

Mr. MOORE. In terms of this involvement?

Mr. BRADEMAS. Yes; if there is some policy question involved that I don't understand that makes it possible for OE to be so deeply involved in managing the collection of insured loans, while there is great difficulty apparently involved in OE being that deeply involved in managing the collection of NDSL loans. Do you perceive my question?

Mr. MOORE. I think so. Let me try to respond in this way. The cost to the Federal Government or the cost to the student loan insurance fund, really of the claims which have been and are now being presented for payment is moving at a rather astronomic level each year, so that it has been determined within the Department and OE that a substantial effort should be made to get back as much of this money as possible.

Our total liability——

Mr. BRADEMAS. Just let me interrupt. I can understand you want to collect in either event.

Mr. MOORE. Right.

Mr. BRADEMAS. What I am trying to get at is much more simpler and primitive. Why, in policy, is there something unique to the GSL program that makes it possible, again putting the statute to one side, assuming you both want to collect on the loan, that makes it possible for OE to be so deeply involved in respect of the collection of GSL loans, but makes it difficult for OE to be involved in collecting NDSL's. That is all. It is not a trick question, but I am trying to understand what the difference is. You are in it up to your ears and Dr. Phillips said, "We haven't even thought of it" in response to my——

Mr. O'Hara. Will the gentleman yield? If we converted NDSL's into a situation where Uncle Sam, instead of making capital contributions on the basis he now makes them, acts as a guarantor of 80 percent of the principal amount of the loan, then, again, they would end up with a bunch of worthless paper in their hands which they would have to try to collect on; isn't that correct?

Mr. Moore. Yes, it would work that way.

I think I perceive the basis for your question. The NDSL program is really a trust fund in the hands of a college or university, managed under certain conditions set out in the statutes. That is quite different from a bank loan which has been made in part, I should not say "in part," but has been made wholly because it has the credit of the U.S. Government behind it in case something goes sour with a loan. A college, managing the trust fund, could afford, I would think, to work out a number of arrangements with a delinquent student whereby he could be allowed to pay back fairly minimum amounts for a number of years, whereas in the insured loan program, we are interested in more. In fact we require minimum payments, $30 a month, no matter what the amount of the loan was. It is in the statute, and if this business is not forthcoming, that is, the payment is not forthcoming, the thing is immediately in the 120-day period turned into a claim.

Mr. Brademas. But is the Government not deeply interested in seeing to the repayment of NDSL loans just as it is in GSL?

Mr. Moore. I would think so, yes, sir. That is in terms of appropriate management of the loan fund. But we are in kind of a counseling situation with a college where we are in a straight-out business relationship with a bank.

I guess that is the best way I could put it.

Mr. Brademas. I won't take time to press this, but I am not clear that it is clear.

Mr. Moore. I will make note of that.

Mr. Brademas. The second point would just be a request, Mr. Moore. It would be very helpful, at least to me, and I am sure other members of the subcommittee, if we could have from your office a chart showing the volume of guaranteed student loans by state in terms of the amount of money, the number of borrowers and the number of banks, credit unions, and other lenders. I ask this in part because my own State of Indiana has historically not been a very enthusiastic participant, unfortunately, from my point of view.

[The following response was provided by OE:]

(Data are not available on loans disbursed by type of lending institution after Fiscal Year 1972 because the computer system from which this data was derived is now non-operational. A new system is being developed, but data on recent loan volume distributed by number and lender type will not be available until early 1975.)

Mr. BRADEMAS. Finally, I would just ask you about this question, which is perhaps a modest problem, but one that has come to my attention. I am speaking of the authority that I understand has been in the statute since 1965, that would enable the Government, where pursuit of the normal repayment mechanism would work an inequity, to write off the loan.

I will give you an example from my own experience wherein a student in my own home city got a guaranteed loan for the full term and the bank, in violation of the regulations of OE for the guaranteed student loan program, sent the check to the institution rather than to her and the people running this institution, which was proprietary, fled with the funds and left town, which was a local scandal, but the bank insisted that the girl pay back the entire loan.

Quite understandably she didn't feel she should since the bank had been responsible for making this error and in such situations as that kind it would seem to me the Government should exercise the 1965 authority to write off such loans.

It is my understanding, and you will correct me if I am mistaken, that presently you are planning to delegate the authority of which I speak, to your regional commissioners. My question is, therefore, I think, all the more pointed, namely, do you contemplate doing that, delegating such authority to the regional commissioners; do you contemplate developing standards to exercise such authority equitably and consistently and do you contemplate exercising such authority.

Mr. MOORE. Let's take the questions in reverse order, if I may. Obviously, the authority must be exercised and at the moment I am busy developing a test case, if you will, to find out how it runs.

Secondly, there will be standards for the use of our people here and in the regions and certainly as we move into our new organizational configuration, it is my understanding that ultimately this will be delegated to the regional offices where they can apply it more handily on the spot, but, obviously, not without a careful establishment of parameters and ground rules; yes, sir.

Mr. BRADEMAS. I am very pleased to hear that. Thank you very much, Mr. Moore.

Mr. O'HARA. Thank you, Mr. Brademas.

First off, Mr. Moore, in your testimony, you said: "The loan is determined to be in default, when there has been a failure, where there has been a delinquency under circumstances where it is reasonable to conclude that the borrower no longer intends to honor his obligation to pay and when this condition persists for 120 days or 180 days."

I take it that that is why the witness, with respect to the NDSL, in their effort to provide a comparable figure, used the 120-day delinquency?

Mr. MOORE. Yes, sir.

Mr. O'HARA. As to "under circumstances where * * *" first, it is reasonable to conclude that the borrower no longer intends to honor his obligation to pay, and is that really a factor or is it just the 120 days that puts them into default?

Mr. MOORE. No; it is the condition, and a condition which exists after the borrower has satisfied the Office of Education that he has conducted what we call due diligence, a whole series of activities, telephone calls, letters, and so forth, all of which are pointed toward establishing a payout relationship.

When all of this failed and all of this must be documented in the claim file, when it is given to us, when it absolutely fails, and the 120 days have run, the borrower, or I mean the lender, may then file a claim with us.

If this effort has not been made. For example, if we received a claim and found in the file a record of a single phone call, and that is all, no letters, no letter from the corporation counsel of the bank indicating the possibility of legal action and so on, the claim will be returned to the lender for more work until it does meet these conditions.

Mr. O'Hara. In other words, it is not enough that the delinquency continue for 120 days?

Mr. Moore. That is right.

Mr. O'Hara. So this is a somewhat different kind of test than the one used by the witness appearing to testify concerning NDSL, because there they computed their probable default rate by a simple reference to 120 days of delinquency, whereas yours is a somewhat different kind of test.

Mr. Moore. Yes. Ours is 120 days of action, that is right, and there is that problem in comparing those two rates.

Mr. O'Hara. So there may be, or perhaps some of the difference between the probable default rates could be explained by that?

Mr. Moore. Yes.

Mr. O'Hara. Do you have any percentages showing—of your defaults—as shown on page 9, how many, or what part of them are in each of those categories? You list four categories here.

Mr. Moore. Yes, sir. We have those broken out by percentages and number of claims and dollar amounts for the last several years. As a matter of fact, we have a report which I think we may have already provided the staff and, if not, I will send some more up here that covers all of this in detail.

Simply put, the bankruptcy part of the claim business accounts for 3.9 percent and death and disability is 5.5 percent and default is 90.6. This is as of last February.

That same general configuration has operated in the years prior to that time, especially the relationship between bankruptcy and death and disability, and it is generally similar between the guarantee agency programs and the federally insured activity.

Mr. O'Hara. Then, the bankruptcy thing has not been a significant problem, has it? I mean 96 percent of the defaults are the simple defaults, a little under 4 percent are bankruptcies?

Mr. Moore. That is right. This pattern has been generally the same over the last, as I say, several years.

Mr. O'Hara. The bankruptcy thing has not changed. There has been some suggestion that perhaps an increasing number of students who have received loans are taking advantage of the provision of the bankruptcy law.

Your experience does not indicate that?

Mr. Moore. The number increases because of the increasing volume in the program.

Mr. O'Hara. But the percentage has not?

Mr. MOORE. The percentage has actually gone down. As a matter of fact, I became concerned about the bankruptcy problem in 1960 when I first began directing the NDEA program and in those days we sort of adopted a "wait and see" policy. Let's wait and see if it gets markedly worse, and it has not. It is part of our experience in the program, but not one in which there has been dramatic increase.

You hear a few horror stories now and then, but that is about the size of it.

Mr. O'HARA. I understand, under the 1972 amendment, you do have the authority to limit, expand or terminate the eligibility of institutions. I think that is provided in section 438.

Mr. MOORE. Yes, sir.

Mr. O'HARA. Can you give us some indication of what action you have taken under authority of section 438? What has your experience been in this particular field?

Mr. MOORE. In the spring we rewrote the regulations which are now in the hands of the General Counsel for review. We are looking toward publication this summer. This is, as you know, a very complicated kind of statutory authority to implement because of all of the kinds of judgments that have to be made, first, and second, because it affects 8,000 eligible institutions in the United States. There is a broad range of postsecondary institutions, if you will, with the University of California, on the one hand, let's say, and a very small proprietary business college located in Michigan on the other hand. It is quite difficult to develop standards that can be applied equally, but we are making what I consider to be excellent progress.

Mr. O'HARA. You have not been suspending institutions?

Mr. MOORE. Not under that authority. We have suspended institutions who have been direct lenders under our lending authority by administrative action, but we have not, as yet, under this authority, removed eligibility.

Mr. O'HARA. In terms of direct lending, that has been an interesting concept to me. To what extent are you, or what has your experience been with institutions who act as lenders?

Mr. MOORE. I will use your words, sir. It has been very interesting in this respect. We have now about 140 institutes of higher education and 60 proprietary institutions who qualify for a contract of insurance only after a very rigorous examination applied by our evaluation committee. This was not true 4 or 5 years ago and unfortunately some schools became involved in that program who are now out of it who caused considerable difficulty.

I am interested in two or three aspects, one of which is the fact that in the higher—well, among all of these schools there is the possibility of the institution selling paper to the student loan marketing association. Since Sally Mae was created to get at the liquidity problem, it seems to me with a proper issuance of direct insurance certificates and provision for colleges and universities selling paper at less than par, which we are bringing to a close right now the programs will expand. In today's money market as I understand from the marketing association, they cannot deal with colleges at par at all. They are going to have to have some sort of discount mechanism.

But that this kind of thing provides a very effective use of loan proceeds for middle-income students, where the institution can manage its own funds and the flow of them and cycle the paper through the marketing association so that it does not get itself in an illiquid situation nor does not get its portfolio loaded to the place where it cannot manage more money or more loans, I should say. But if the costs in the private sector continue to go like this [indicating] increasingly, the college as well as the banks are going to have to help people with long-term financing. There are no two ways about it.

Mr. O'HARA. I have a feeling that the program has a great potential if the institutions can become a lender in this program, but I am really concerned about how an institution manages to do that under present circumstances.

Mr. MOORE. Well, it is difficult, because, first of all, the school has to get a capital supply at some cost, that is, at least at a break-even or at less than a break-even level and with the conditions in the market going up and down like this, and the fact that the marketing association is a for-profit organization that has to exist off of these two rate differences, it is a complicated sort of thing.

Mr. O'HARA. I have had it suggested to me that the institution would be able to do this better if they formed consortia of institutions and had a consortium to be the lender under the guaranteed loan program.

Do you have any comments on that method of operation?

Mr. BAYER. They would not normally qualify under the statutory definition of "eligible lending institutions." That is the real problem of having a consortium, from a legal standpoint they won't be able to participate. What has been suggested to is that they could designate one school within the consortium to serve as lender of record or find a commercial bank or other lending institution to serve as the lender for the consortium.

Mr. O'HARA. I think we ought to look into the possibility of expanding participation by consortia. I think another question that occurred to me is, perhaps, we ought to think about running the program a little differently in this sense, instead of guaranteeing loans to individual student borrowers, guarantee loans to institutions and let the institution make the loans to the student borrowers and they can worry about collecting them.

One of the problems has been sort of a frictional problem: lending institutions are not accustomed to dealing with students and they don't want to put aside any large part of their volume for the year for student loans and they consider it sort of a public service and they are willing to allocate a certain amount each year but unwilling to go much beyond that.

Sallie Mae has helped in that regard.

Mr. BAYER. Yes.

Mr. O'HARA. But I am wondering if you might not say, all right, we will guarantee loans made by banks and other commercial lenders to institutions, but the institutions would then use them as capital in their student loan fund and let them deal with the students.

I don't know if you have given that any thought. That would provide capital on a federally guaranteed basis.

Mr. BAYER. I can see potential problems. First, in addition to requiring a significant legislative change, if the school were unable to meet its obligation to the bank to repay its loan, maybe because they were not successful in collecting the loans, I am not quite sure how you would go about trying to recover on the loss. Who would guarantee the bank loan? Especially if the school would close up, as we have had the schools close up.

Mr. O'Hara. Maybe you could attach a couple of basketball players and auction them off to other institutions.

Mr. Bayer. I guess you would also have to establish criteria in this respect that would relate perhaps to the type of institution. You might treat the University of California, as was indicated, somewhat differently than a school of cosmetology, and also we are concerned with the foreign schools as to what would happen in those cases.

Mr. O'Hara. Let me ask another question.

Mr. Bayer. Also, Mr. Chairman, one final point. Many schools do not have legal authority to borrow, especially State-supported institutions.

Mr. O'Hara. Have you made any studies of characteristics of defaulting borrowers as compared to characteristics of your borrowers as a group and have you made any study of the institutions attended by defaulting borrowers, as compared to institutions attended by this higher population of borrowers?

Mr. Moore. The default estimation model I referred to a moment ago, Mr. O'Hara, which we understand will be fully operational this summer, is beginning to develop for us a set of the kind of criteria I am sure you are talking about.

The one factor that, that constantly reoccurs in the model already is that a critical determinant on whether or not a loan goes into default has to do with the way the loan originated in the first place. That is, whether the student and the lender, whoever he may be—bank or college or savings and loan, credit union—took the time to clearly establish with the student his rights, obligations, the conditions under which the loan was being granted, how it was to be used.

Years ago I met a very engaging young business officer from a college in North Dakota, I think it was 1960, who had one little phrase. He said: a loan is paid when it is made. And that same fact I think comes through in a lot of the NDEA experience as well. We hope that the model will begin to point out other kinds of things that we normally don't think about as being descriptive of students who are in this default category.

I think it will turn up things there that nobody has foreseen before. One very real problem that I perceive, in fact I see it now, is this. In some institutions of higher education, because of limited NDEA money and because of limited other kinds of resources, the direct Federal program is being used as a "loan of last resort," and this is for the student that has been turned down everywhere. When 300 or 400 or 500 of these students are put together in a single population, the early experience is that we are finding a higher incidence of default in this group than would normally be the case.

But as one financial aid officer put it to me one day, he said, "You are asking us to make some very difficult decisions."

Here I am sitting across the table from a student who has, by my sort of visceral feeling about him, all of the characteristics of a young person who is going to default on his loan, yet he wants to enter as a freshman and needs the $900 in order to enter. Now, do I sit and make a judgment that he cannot enter because I think he may be a defaulter or do I gamble with him? Then, of course, the question to us is, what kind of stakes do you want to gamble with in the Office of Education.

I think, and I would simply make this suggestion to your committee, that this is an issue that has to be probed considerably so that all of us know exactly where we are going and especially in the "loan of last resort" concept.

Mr. O'HARA. Well, I am going to have a lot of questions about that and I am looking forward with great expectation to your speedy completion of that study, because I hope we could look at it before we rewrite the legislation.

We want to know, of course, the characteristics of the borrowers that default and we want to determine how many defaults by type of institution and by type of lender and the rate of dropout, what influence dropout rates have on this, and a few other things, because I think there are ways in which, working together, we can improve these programs.

Mr. MOORE. Right. I should also mention, and Miss Hansen reminds me, we have an extensive sample study underway right now which will be finished sometime in the fall, that by personal interview and questionnaire and a variety of other techniques, seeks to get at these very questions in a sample of banks and in a sample of defaulted students as well and we hope this will yield some more grist for the mill.

Mr. O'HARA. We are going to be back in touch with you. I thank you very much for appearing before us today and we will be back in touch. In fact, we will be in rather continuous touch for the next several months.

Thank you very much.

Mr. MOORE. Thank you, sir.

Mr. O'HARA. The subcommittee will now stand in adjournment until tomorrow, same time and same place.

[Whereupon at 12:15 p.m. the subcommittee adjourned, to reconvene the following day at 10 a.m.]

GUARANTEED STUDENT LOAN PROGRAM—ANNUAL LOAN VOLUME (FISCAL YEARS)

	Cumulative since inception[1]		1969		1970		1971		1972		1973	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Total	5, 979, 982	5, 754, 775, 524	787, 146	$686, 675, 781	921, 896	$839, 666, 044	1, 080, 679	$1, 043, 990, 980	1, 256, 299	$1, 301, 576, 723	1, 088, 286	$1, 198, 523, 248
Alabama	71, 050	63, 182, 789	10, 314	8, 366, 414	12, 991	11, 956, 979	14, 600	13, 609, 924	15, 158	14, 562, 332	11, 196	11, 180, 516
Alaska	1, 162	1, 231, 270	197	166, 463	128	109, 562	177	193, 702	254	302, 986	128	180, 012
Arizona	47, 986	39, 299, 599	8, 550	6, 582, 198	7, 763	6, 404, 204	8, 926	7, 545, 573	9, 155	7, 605, 163	7, 712	8, 163, 737
Arkansas	26, 992	18, 953, 517	3, 924	2, 446, 817	4, 509	3, 206, 249	5, 280	3, 408, 072	4, 881	3, 963, 108	4, 127	3, 551, 709
California	529, 399	515, 211, 273	76, 054	69, 014, 242	99, 132	94, 947, 703	100, 540	92, 307, 469	122, 333	125, 261, 694	95, 060	104, 305, 485
Colorado	95, 009	110, 615, 622	11, 132	10, 756, 511	13, 723	15, 747, 191	19, 202	23, 889, 557	23, 903	29, 167, 442	16, 577	22, 029, 336
Connecticut	150, 779	179, 188, 298	21, 537	24, 825, 904	23, 579	27, 963, 752	25, 218	30, 949, 612	28, 808	35, 869, 203	24, 429	30, 126, 005
Delaware	11, 320	6, 167, 380	1, 852	996, 330	1, 917	1, 003, 672	2, 352	1, 258, 796	2, 039	1, 100, 134	1, 692	984, 383
District of Columbia	13, 200	14, 459, 548	1, 240	1, 225, 007	1, 757	1, 756, 834	2, 970	3, 279, 620	3, 453	3, 959, 596	3, 338	3, 839, 765
Florida	92, 773	100, 714, 737	13, 743	13, 066, 055	13, 765	14, 832, 670	16, 751	19, 121, 202	21, 303	24, 708, 095	17, 905	21, 939, 729
Georgia	65, 187	62, 520, 889	9, 482	8, 810, 287	10, 048	9, 517, 143	10, 591	10, 108, 417	14, 477	14, 265, 150	10, 386	10, 885, 082
Hawaii	13, 188	14, 666, 241	2, 011	2, 009, 215	1, 939	2, 423, 287	2, 286	2, 621, 993	2, 174	2, 653, 686	1, 891	2, 399, 274
Idaho	23, 363	24, 039, 343	3, 135	2, 691, 628	5, 048	4, 619, 682	5, 165	6, 255, 843	4, 626	5, 681, 779	3, 094	3, 254, 236
Illinois	591, 881	591, 147, 622	38, 700	40, 297, 972	49, 315	48, 065, 493	101, 919	104, 355, 938	176, 160	171, 247, 107	184, 020	182, 831, 410
Indiana	140, 533	147, 595, 885	13, 242	11, 923, 689	22, 706	22, 736, 960	27, 131	28, 990, 181	38, 080	41, 927, 546	27, 951	32, 364, 643
Iowa	110, 561	108, 144, 339	17, 231	14, 428, 330	19, 080	19, 122, 306	20, 609	21, 410, 929	21, 596	22, 757, 128	17, 240	19, 279, 761
Kansas	54, 489	51, 941, 203	7, 358	6, 153, 215	8, 467	7, 955, 863	9, 147	8, 987, 134	12, 216	12, 613, 879	10, 452	11, 578, 112
Kentucky	45, 908	42, 180, 589	4, 927	4, 152, 900	7, 057	6, 369, 547	8, 188	8, 100, 499	9, 522	10, 067, 758	8, 228	8, 128, 491
Louisiana	52, 294	44, 613, 358	5, 220	4, 435, 716	6, 890	5, 350, 143	7, 844	6, 674, 023	11, 819	11, 854, 655	9, 602	9, 756, 834
Maine	35, 002	32, 664, 439	1, 946	1, 775, 386	6, 576	5, 925, 263	7, 067	6, 777, 096	7, 107	7, 097, 145	6, 089	6, 150, 611
Maryland	62, 837	78, 131, 439	2, 902	2, 485, 212	10, 868	13, 705, 894	12, 594	16, 126, 537	16, 974	22, 181, 650	13, 327	18, 322, 089
Massachusetts	142, 570	143, 053, 302	19, 933	18, 721, 143	20, 469	19, 765, 223	21, 650	21, 770, 063	24, 116	26, 625, 100	24, 197	28, 666, 924
Michigan	96, 524	90, 691, 542	11, 213	9, 503, 806	12, 423	10, 801, 418	18, 243	16, 935, 890	21, 897	22, 406, 285	18, 413	19, 735, 526
Minnesota	153, 038	152, 076, 941	23, 587	20, 349, 934	26, 814	26, 246, 240	27, 680	28, 774, 362	31, 911	33, 888, 634	26, 725	30, 406, 901
Mississippi	45, 255	40, 517, 760	6, 430	4, 624, 535	9, 224	8, 160, 581	9, 427	8, 799, 284	8, 856	9, 000, 834	6, 580	7, 020, 366
Missouri	53, 971	48, 790, 183	6, 774	4, 854, 529	6, 561	4, 912, 470	8, 696	7, 349, 765	11, 726	11, 899, 233	13, 934	15, 551, 816

Montana	30, 883	29, 017, 199	5, 670	4, 749, 650	6, 313	5, 968, 442	6, 136	6, 233, 981	5, 302	5, 315, 993	3, 982	4, 306, 259
Nebraska	45, 508	46, 739, 663	5, 268	4, 706, 419	6, 582	6, 658, 675	8, 587	9, 124, 989	11, 166	12, 091, 798	9, 649	11, 051, 631
Nevada	5, 357	4, 405, 620	387	297, 251	679	500, 144	1, 046	878, 306	1, 327	1, 189, 826	996	972, 029
New Hampshire	17, 358	15, 498, 918	2, 674	2, 324, 575	2, 655	2, 344, 262	2, 789	2, 485, 970	3, 118	2, 844, 551	2, 761	2, 631, 339
New Jersey	253, 884	272, 171, 616	39, 374	40, 743, 176	38, 950	40, 745, 256	44, 553	46, 483, 191	50, 434	55, 773, 174	39, 363	47, 635, 548
New Mexico	38, 027	34, 469, 972	22, 803	1, 855, 025	3, 045	2, 577, 431	6, 509	5, 950, 088	11, 684	11, 647, 499	9, 718	10, 024, 750
New York	921, 278	944, 825, 554	149, 762	145, 380, 951	142, 008	142, 544, 794	145, 595	151, 003, 203	146, 956	162, 388, 151	147, 109	174, 065, 351
North Carolina	29, 652	22, 052, 659	3, 714	2, 199, 302	3, 494	2, 511, 407	5, 295	3, 785, 974	6, 250	5, 300, 016	6, 384	5, 803, 064
North Dakota	69, 067	63, 142, 198	10, 458	8, 775, 889	12, 971	11, 863, 700	14, 312	13, 144, 727	13, 624	12, 932, 598	10, 477	10, 998, 186
Ohio	121, 275	136, 282, 918	15, 945	17, 779, 756	16, 741	17, 784, 166	20, 703	23, 357, 558	26, 587	30, 813, 338	23, 886	29, 042, 566
Oklahoma	33, 894	27, 240, 627	4, 512	3, 700, 699	4, 973	4, 070, 332	5, 656	4, 464, 658	6, 900	5, 757, 710	6, 961	5, 759, 501
Oregon	60, 839	48, 272, 518	9, 271	6, 614, 503	10, 888	8, 183, 383	12, 246	9, 518, 415	12, 856	11, 015, 215	9, 057	8, 839, 128
Pennsylvania	442, 192	471, 340, 642	53, 291	53, 324, 365	66, 600	61, 482, 371	94, 111	105, 504, 956	88, 788	107, 179, 568	72, 127	88, 743, 922
Rhode Island	35, 782	34, 881, 059	4, 595	4, 136, 346	5, 331	5, 148, 460	5, 938	5, 574, 723	6, 987	6, 867, 555	7, 556	8, 338, 687
South Carolina	14, 294	9, 648, 949	1, 842	1, 155, 117	1, 361	925, 433	1, 799	1, 180, 421	3, 677	2, 731, 937	2, 494	1, 888, 936
South Dakota	40, 660	35, 852, 994	5, 769	4, 692, 389	6, 511	5, 857, 668	7, 802	7, 164, 661	8, 309	7, 867, 946	7, 242	7, 510, 917
Tennessee	46, 335	43, 700, 959	5, 977	5, 275, 441	6, 311	5, 880, 337	7, 248	6, 978, 976	8, 579	8, 303, 059	9, 843	10, 291, 798
Texas	424, 230	295, 410, 561	60, 934	26, 194, 161	88, 671	48, 248, 157	93, 103	58, 761, 586	82, 927	18, 179, 223	57, 484	65, 150, 647
Utah	41, 079	39, 476, 176	5, 831	5, 197, 062	8, 304	7, 924, 435	8, 571	8, 652, 689	7, 403	7, 721, 066	5, 112	5, 793, 303
Vermont	17, 354	17, 146, 941	2, 561	2, 321, 657	2, 620	2, 499, 230	2, 852	2, 884, 655	3, 710	3, 984, 320	2, 797	3, 053, 598
Virginia	72, 388	67, 154, 012	10, 480	9, 055, 048	11, 272	10, 072, 971	11, 386	10, 512, 495	12, 824	12, 569, 030	12, 359	13, 575, 749
Washington	74, 170	72, 556, 438	7, 953	6, 293, 326	10, 257	9, 232, 702	13, 280	12, 299, 206	19, 001	19, 769, 204	17, 764	20, 902, 213
West Virginia	36, 566	35, 954, 029	5, 089	4, 477, 444	8, 246	7, 627, 157	6, 203	6, 643, 246	7, 471	8, 175, 644	5, 327	6, 133, 929
Wisconsin	200, 559	118, 489, 887	21, 902	12, 744, 052	35, 331	19, 664, 715	42, 038	24, 187, 245	44, 781	26, 190, 130	38, 292	26, 077, 027
Wyoming	6, 398	6, 708, 330	935	830, 778	861	939, 884	968	1, 093, 991	1, 310	1, 531, 078	1, 074	1, 342, 452
United student aid fund	137, 257	109, 107, 882	17, 479	14, 046, 775	11, 766	9, 551, 899	10, 716	10, 241, 101	12, 652	13, 983, 924	8, 110	9, 310, 960
American Samoa	70	82, 474							45	49, 872	25	32, 602
Guam	63	64, 385							11	12, 250	52	52, 135
Puerto Rico	37, 733	30, 497, 839	4, 225	2, 992, 686	6, 369	5, 213, 224	6, 948	6, 233, 289	6, 948	6, 596, 302	6, 619	6, 633, 314
Virgin Islands	277	352, 415	11	8, 500	37	39, 080	36	45, 199	94	127, 424	91	127, 987

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[1] Does not include fiscal year 1966—a total of $77,000,000. Fiscal years 1967 and 1968 are not shown separately, but are included in the cumulative totals. Nationally these amounted to: fiscal year 1967—number, 330,068; amount, $248,494,027; fiscal year 1968—number, 514,508; amount, $435,848,721.

GUARANTEED STUDENT LOAN PROGRAM

LOAN VOLUME, JULY 1, 1973, THROUGH APR. 30, 1974

	Number	Amount
National totals	854,741	$1,033,863,169
Alabama	7,256	7,826,290
Alaska	153	264,409
Arizona	5,037	7,050,368
Arkansas	2,804	2,682,584
California	59,751	76,566,845
Colorado	12,489	19,352,263
Connecticut	26,191	36,052,250
Delaware	1,687	1,120,917
District of Columbia	2,769	3,545,692
Florida	13,809	18,872,573
Georgia	7,288	8,236,514
Hawaii	1,699	2,316,189
Idaho	1,440	1,619,746
Illinois	159,663	176,900,949
Indiana	18,799	24,109,158
Iowa	10,798	12,782,094
Kansas	7,984	9,943,148
Kentucky	6,232	7,981,359
Louisiana	5,892	6,371,330
Maine	4,330	4,470,120
Maryland	10,455	17,516,674
Massachusetts	26,620	35,120,660
Michigan	14,257	15,941,560
Minnesota	16,057	19,585,716
Mississippi	4,009	4,758,269
Missouri	10,006	12,351,862
Montana	2,503	2,874,844
Nebraska	5,291	$6,571,998
Nevada	735	758,305
New Hampshire	2,316	2,472,911
New Jersey	33,606	47,974,722
New Mexico	4,029	3,850,854
New York	115,604	145,056,207
North Carolina	3,705	5,098,332
North Dakota	5,697	6,071,978
Ohio	17,953	23,051,068
Oklahoma	5,342	4,389,637
Oregon	6,245	6,400,993
Pennsylvania	62,647	80,748,533
Rhode Island	7,087	8,000,846
South Carolina	1,471	1,411,336
South Dakota	4,850	5,450,335
Tennessee	10,642	12,641,980
Texas	40,223	46,751,045
Utah	1,805	2,486,664
Vermont	2,712	3,080,625
Virginia	9,866	11,648,279
Washington	7,841	9,395,389
West Virginia	3,593	4,592,164
Wisconsin	29,037	22,711,470
Wyoming	473	620,974
United Student Aid Fund	23,797	27,07[illegible],612
American Samoa	39	83,157
Guam	11	10,350
Puerto Rico	8,086	9,154,383
Virgin Islands	59	83,639

GUARANTEED STUDENT LOAN PROGRAM

NUMBER OF ELIGIBLE LENDERS (BY STATE), CUMULATIVE THROUGH FEBRUARY 1974

	Total lenders	All banks [1]	Credit unions	Other lenders [2]
National total	19,307	14,982	2,433	1,892
Alabama	267	208	42	17
Alaska	19	11	5	3
Arizona	84	67	13	4
Arkansas	198	170	13	15
California	850	734	68	48
Colorado	222	169	24	29
Connecticut	675	252	389	34
Delaware	38	35	2	1
District of Columbia	44	13	19	12
Florida	544	328	153	63
Georgia	856	486	221	149
Hawaii	184	79	101	4
Idaho	74	64	7	3
Illinois	1,058	871	78	109
Indiana	625	507	50	68
Iowa	730	620	62	48
Kansas	702	587	67	48
Kentucky	299	259	21	19
Louisiana	329	236	71	22
Maine	223	180	36	7
Maryland	273	248	16	9
Massachusetts	421	311	78	32
Michigan	485	361	99	25
Minnesota	784	704	20	60
Mississippi	231	185	20	26
Missouri	575	484	43	48
Montana	168	137	21	10
Nebraska	410	357	27	26
Nevada	7	2	4	1
New Hampshire	115	101	4	10
New Jersey	448	262	44	142
New Mexico	113	77	21	15
New York	752	460	49	243
North Carolina	155	141	1	13
North Dakota	240	199	24	17
Ohio	724	490	103	131
Oklahoma	338	272	21	45
Oregon	90	84	3	3
Pennsylvania	1,254	1,077	64	113
Rhode Island	32	18	11	3
South Carolina	188	172	8	8
South Dakota	277	225	35	17
Tennessee	309	265	26	18
Texas	880	679	124	77
Utah	103	77	21	5
Vermont	94	86	6	2
Virginia	396	365	15	16
Washington	383	272	59	52
West Virginia	180	153	16	11
Wisconsin	710	593	50	67
Wyoming	75	47	20	8
Guam	2	2	0	0
Puerto Rico	70	60	1	9
American Samoa	1	1	0	0
Virgin Islands	3	3	0	0

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[1] "All banks" include National, State, and mutual savings banks.

[2] "Other lenders" include savings and loans, insurance companies, academic institutions, etc.

GUARANTEED STUDENT LOAN PROGRAM

PERCENT OF LOANS DISBURSED BY TYPE OF LENDING INSTITUTION, FISCAL YEAR 1972

	National and State banks		Federal and State savings and loan		Federal and State credit unions		Higher education		Vocational education		Mutual savings banks		Any other [1]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
National total	62.3	62.2	9.3	10.2	3.6	3.6	1.8	1.5	10.6	10.5	8.6	9.7	3.8	2.1
Alabama	76.0	73.1	10.9	13.8	10.8	10.4	.1	.1	1.6	1.9			.6	.7
Alaska	91.8	92.8			8.2	7.2								
Arizona	94.4	94.0	2.8	2.8	2.8	3.2								
Arkansas	61.8	68.0	1.7	1.7	1.3	1.4			8.0	9.0			27.2	19.9
California	70.7	67.1	21.2	23.9	2.4	2.8	.2	.1	5.5	6.1				
Colorado	82.0	81.8	3.4	2.3	7.2	7.4			7.4	8.5				
Connecticut	39.7	37.1	7.8	7.9	5.8	6.3	.9	.5	.4	.5	36.9	38.1	8.5	9.6
Delaware	98.8	97.8	4.8	5.8	1.2	2.2								
District of Columbia	3.2	3.0	24.3	24.1	5.9	5.7	.8	.8					85.3	84.7
Florida	58.8	59.6	19.2	22.4	13.8	13.9	.2	.1	2.3	1.9			.6	.4
Georgia	65.9	61.5	.6	.7	6.5	8.0	1.9	1.1	.1	.2			6.5	6.6
Hawaii	25.3	26.5	4.0	5.1	74.1	72.8								
Idaho	95.0	93.6	3.2	3.7	1.0	1.2								
Illinois	31.0	34.8	4.1	4.6	1.1	1.2			64.7	60.3				
Indiana	68.2	69.7	12.3	12.4	11.2	10.6	14.5	13.8			.3	.3	.7	1.0
Iowa	83.5	82.9	12.4	12.9	3.6	4.1	.5	.5					.1	.1
Kansas	84.9	84.2	4.7	5.1	2.2	2.7	.5	.2						
Kentucky	92.2	91.9	.8	.8	1.8	1.9	1.3	1.0						
Louisiana	95.1	95.7	1.3	1.4	4.1	3.5								
Maine	70.6	68.4	2.3	2.4	9.8	10.3					18.3	19.9		
Maryland	26.3	20.9			3.0	2.6					7.3	5.5		
Massachusetts	55.0	55.1	2.9	2.9	4.1	4.4	.6	.7			37.4	36.9		

Michigan	83.8	32.6	7.7	8.6	7.0	7.2	1.4	1.5	---	---	---	---	.1	.1
Minnesota	71.7	71.3	23.7	27.3	.1	.1	4.5	1.3	---	---	---	---	---	---
Mississippi	76.5	74.7	15.5	17.6	4.4	5.1	---	---	.4	.4	---	---	2.8	2.2
Missouri	79.7	80.2	2.5	2.2	4.2	4.4	3.4	2.2	5.6	5.3	---	---	4.6	5.6
Montana	96.6	95.2	1.3	2.0	2.1	2.8	---	---	---	---	---	---	---	---
Nebraska	68.9	68.1	12.6	14.1	10.2	11.6	6.9	4.8	.5	.6	---	---	.9	.8
Nevada	100.0	100.0	---	---	---	---	---	---	---	---	---	---	---	---
New Hampshire	54.6	53.9	4.9	5.0	1.8	2.0	3.2	2.6	---	---	35.5	36.5	---	---
New Jersey	64.6	65.1	18.5	19.1	1.2	1.3	3.4	1.9	2.8	3.5	9.5	9.1	---	---
New Mexico	28.5	21.3	2.5	2.8	5.7	7.1	61.8	67.1	---	---	---	---	1.4	1.7
New York	55.5	55.0	9.7	9.9	.7	.7	.2	.1	.7	.8	33.2	33.5	---	---
North Carolina	2.8	2.9	9.6	13.0	---	---	---	---	---	---	---	---	87.6	84.1
North Dakota	89.8	88.4	9.2	10.4	1.0	1.2	---	---	---	---	---	---	---	---
Ohio	74.5	76.5	16.4	15.8	5.0	5.5	3.5	1.8	.6	.4	---	---	---	---
Oklahoma	60.4	61.9	16.1	17.5	10.3	11.2	3.1	1.6	---	---	---	---	10.1	7.8
Oregon	94.7	78.1	4.1	10.7	.6	.8	.3	.4	---	---	---	---	---	---
Pennsylvania	84.2	84.1	5.1	5.1	1.7	1.7	.1	.1	.8	.5	8.1	8.5	---	---
Rhode Island	67.2	66.6	---	---	.7	.8	---	---	.1	.1	31.3	31.8	---	---
South Carolina	48.9	59.4	1.6	2.2	.8	1.0	22.3	19.3	26.4	18.1	---	---	---	---
South Dakota	92.4	91.5	.4	.4	3.3	3.9	---	---	2.5	2.4	---	---	1.4	1.8
Tennessee	71.5	71.2	5.2	5.2	7.4	8.0	6.4	4.3	9.6	11.3	---	---	---	---
Texas	44.6	44.6	7.4	7.2	10.7	10.5	1.8	1.2	30.5	33.2	---	---	5.0	3.3
Utah	88.6	87.6	.9	1.0	10.2	10.9	---	---	.3	.5	---	---	---	---
Vermont	84.1	84.2	---	---	2.1	1.8	---	---	---	---	13.8	14.0	---	---
Virginia	95.9	95.6	.8	.8	3.3	3.6	---	---	---	---	---	---	---	---
Washington	38.5	36.5	12.4	12.7	5.3	5.5	1.2	.9	---	---	39.9	41.2	2.7	3.2
West Virginia	92.1	91.7	5.5	5.4	2.1	2.6	.2	.2	---	---	---	---	.1	.1
Wisconsin	39.6	51.3	5.2	7.4	2.6	3.7	---	---	4.6	8.4	.1	.1	47.8	29.1
Wyoming	74.1	72.2	8.2	8.2	9.8	9.6	---	---	7.9	10.0	---	---	---	---
Guam	100.0	100.0	---	---	---	---	---	---	---	---	---	---	---	---
Puerto Rico	98.1	97.8	1.5	1.6	---	---	.4	.5	---	---	---	---	---	---

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[1] "Any other" includes insurance companies, direct State loans, bank funds, credit corporations, college foundations, etc.

Prepared Statement of M. Robert Carr, Candidate for Congress From the State of Michigan

My name is M. Robert Carr. As a candidate for the Congress from Michigan's Sixth District for the past twenty-five months, I have listened to students and parents of students tell me of the hardship they face in financing higher education in a time of economic uncertainty. This statement contains a summary of what these people have been saying.

They are questioning the wisdom and justice of an educational aid system which promises but doesn't perform for the vast majority of individuals from middle incomes. Students and parents alike are asking why the adult student's hopes for a college education must be linked to the government's opinion of the financial ability of the parent. They are asking why the government can't recognize financial independence when it occurs rather than two years later. They are disgusted with federal requirements that punish rather than reward the efforts of students to help themselves with part-time jobs and in the process force greater loan dependence. They are frustrated at the general lack of availability of funds for student financial aids and work-study projects. They want to know why the Congress can't do something to revitalize the guaranteed loan program which has come to a halt in the midst of rising interest rates.

Underlying these specific complaints about student financial aids is their profound questioning of a government which judges an investment in education as inferior in return and benefit (not to mention economic impact) to investments in military hardware. They have registered with me their dissatisfaction with token commitments to the assistance in financing education. They are demanding a reordering of our nation's priorities.

I ask the Special Subcommittee on Education to consider this written statement as additional evidence of the need to relax the criteria for the demonstration of financial independence, to cease the penalizing of student self-help, part-time work effort, to create a new method of supplying funds to the guaranteed student loan program, and to generally consolidate and expand the availability of student loans and work-study.

For the subcommittee's background the sixth district of Michigan is a middle income district: 74% of its families earn less than $15,000 per year and the median income is around $11,000. Currently the economic condition of the district is poor. Our dominant industry is automotive, and while industry spokespeople predict improvements, the district's economy is on its back. Our families are being buffeted by 11% inflation and 10% unemployment. In addition two major strikes have pushed our out-of-work force to near 15%. Reductions in earnings together with rising prices and a tight job market all add up to a troublesome situation for the average family.

But added to that, the district also has the fourth largest student population of any district in the nation (45,000). Most of these students are at Michigan State University in East Lansing. However, Jackson Community College, Lansing Community College and Spring Arbor College have significant enrollments.

It is not surprising, then, that financing an education in the midst of job scarcity, high prices and evaporating student financial aids is having a depressing effort not only on the already poor economic condition of the area, but more importantly on the hopes, aspirations and dreams of the students and the parents of students of modest or low financial capacity.

Conversations I have had with the parents and students point to three recurring difficulties with the present federal student loan programs. One is the assumption the federal law makes as to the desire or more frequently the ability of parents to help finance their children's higher education and the corresponding lack of a way out for the student through claims of financial independence. Second is the penalty students must pay if they work to supplement their financial aid. Third is the inability of the private banking sector to devote sufficient funds to the student loan market in view of the present interest rate structure.

Accordingly, the Congress must move to test the student's financial independence from the student's point of view rather than the parents. Likewise, it must stop penalizing student self help. In addition the Congress must give active consideration to the creation of a new student loan program based on a trust fund concept to guarantee the availability of funds, particularly during times and at those locations of economic instability.

Two actual case histories that follow should serve to illustrate the need to relax the present criteria for financial independence.

Mary Gust is a sophomore at M.S.U. in child development and teaching. She is paying her own way through school because her parents are completely unable to help. (Her parents live on her father's pension as a retired Detroit policeman).

Mary saved money during high school and has worked summers to meet her educational expenses. This money, along with $1,200 in loans and grants during her freshman year and $900 during her sophomore year have sufficed until now.

But now, with her savings depleted, Mary is trying to get more loan support for her final two years of college. She can only qualify for the money she needs by filing as independent of her parent's support. Mary satisfies the present requirements that her parents do not take her as a dependent on their tax return and she has not received more than $600 from them in the past year. But the third federal requirement is that the applicants cannot have lived with their parents for more than two weeks during the past year. To Mary that means that she cannot live at home this summer if she hopes to get a loan as a financial independent in the fall. But in doing so, additional amounts she will qualify for ($400) will roughly offset the increased living expenses required to gain the financially independent status. Either way, Mary is trapped and cannot plan on having the $3,000 she needs for her third year of college.

Mary could drop out of school and work for awhile to get the required funds but that would be an expensive alternative as well. Mary's parents have now moved out of state and if she drops out for more than one term, she runs the risk of being reclassified as an out-of-state resident and her tuition will increase.

While suspensions of an educational career are not always as financially detrimental, many students report that a financially forced drop out is almost always detrimental to educational objectives. Courses, particularly in the junior and senior years, aren't always repeated and must be sequenced. It can take as long as a year to resequence an educational program. In the meantime study habits can atrophy and grades can drip as the student strains to compete with others of greater educational continuity. In addition the probability of re-entry and graduation diminish as well as the educational investment. In any event, the uncertainty of student financial aids and economic condition produce an unwelcome roulette that has a detrimental effect on the educational process.

Shirlee Busetto, a junior at M.S.U. had another problem with the federal dependency regulation. Her loan application as a financial independent was denied because her parents had taken her as a dependent on their federal income tax return the previous year. Yet, at the time Shirlee was on her own financially. Without the student loan she had to drop out of school and work to get the necessary money.

Shirlee is now back in school and is a Resident Advisor of her dormitory. She reports that many of the women on her floor have counseled with her about the same problem. Essentially the student is frequently trapped between the power of the federal financial independency guidelines and the power of the parents over income tax returns.

While no doubt there is some tax return cheating involved, the greatest problem is the burden the independency guidelines impose on parents to anticipate the financial independency of their children.

There is also an emotional aspect to the problem. Many children are ready and willing to assert financial independence earlier than their parents are willing to grant it. But it is understandable that the student may not want to fight the parent over the parent's tax return where the parent has the final word. But failure to do so can be fatal if the federal guideline for financial independence is to be relied upon.

Shirlee also reports that another related problem is frequent among the students she counsels. Often the student is unable to gain the cooperation of the parent in filling out the required Parent's Confidential Statement form. Some parents consider such a request by government an unwarranted infringement on their right of privacy. In the end, of course, the student is hurt through no fault of his or her own.

The federal guidelines for financial independence certain other unwarranted assumptions about the role of parents in financing an education. Often such assumptions create hardship for students through restrictions on eligibility for student loans. These guidelines must be relaxed or preferably abolished to make financial independence attainable by sworn declaration. It's time the Congress: 1) drop the premise that parents are primarily responsible for financing their children's higher education and 2) recognize the student's right to declare financial independence.

Ms. Busetto has another equally serious problem. Because she receives federal student financial aid she is restricted on the amount of money she can earn on a part-time job. Over a certain amount she either has to quit her job or pay her part-time wage to the student financial aid office. It's not surprising that the present system in fact gives incentive not to work. This counter productivity is compounded when the present law allows the financial aid director to increase the amount loaned to such a student but cannot allow that student to work for it. In the meantime, students able to get along without federal financial aids can get part-time jobs and society pats them on the back for their fine effort. The present requirements stand traditional, proven social values on their head. The Congress must allow students to work to make ends meet above their aid level and stop forcing them into additional indebtedness.

The third major problem voiced by the students is the general lack of availability of sufficient funds for the guaranteed loan program. Our present reliance on the private sector is misplaced. At Michigan State, nearly 300 students in less than six months were turned down by at least two banks.

As you're already aware, banks are having a hard time making student loans available at current interest rates. Ken Westlake, an M.S.U. student, did some research for me at our local banks. Attached is a copy of his report. In sum, these banks experience the relative unprofitability of lending to students and therefore impose obstacles in front of applicants for guaranteed loans. These include: a student and/or his or her parents must have an account in the bank, sometimes for a specified period of time; the student's family must have a good credit rating; the student must be an upper-classperson, thereby eliminating those attending junior colleges from consideration; or the student must be a graduate of a high school located in the bank's area. These preconditions make the student's task of obtaining educational loans even more difficult. Again, I refer you to the attached summary of local banks' pertinent credit policies.

Public Law 93-269 did amend Section 2(a)(7) of the Emergency Student Loan Act of 1969 to extend through the next fiscal year the Secretary of HEW's authority to prescribe a "special allowance" interest supplement beyond the statutory 7% ceiling. However, the existence of such discretionary power does not assure its full exercise. Here in mid-Michigan, according to Mr. Henry Dykema, Director of the Office of Financial Aids at Michigan State University, the special allowance of 2½% leaves our banks 1½% short of the area's current prime interest rate of 11%.

Mr. Dykema agreed that despite the intangible value of the guarantee on student loans, the lower rate of return dispels any illusions that these commitments are justifiable except from a public relations standpoint. He added that the contemplated legislation authorizing a special allowance of up to 4% would not, in his view, be a panacea.

Such conditions have forced banks to put their responsibilities to their depositors ahead of student loans.

As a solution, the Congress should consider the establishment of educational loan trust funds administered by the states. Such state trust funds could act upon the loan recommendations of colleges and universities while assuming the administrative burdens of collection and accountability to the federal government.

Congress would provide funds to the U.S. Office of Education on a demonstration project basis. State trust funds for student loans would be financed on a matching fund formula.

There would be spinoff benefits. Federal inspectors would enjoy far easier access to the records of 50 states, as opposed to 5,000 educational institutions which can't be reached on a regular basis. Control by the federal government could be reduced to the bare essentials of interest rates, repayment periods, and non-discriminatory administration. Various loan programs could be consolidated under the direction of the state trust funds, with great savings potential. Loans could be more easily made to students, and on a wider scale as well. Interest rates could be cut, since profit would be eliminated as a component.

As repayments gradually begin to offset the outflow of money for new loans, the trust funds will increasingly pay their own way. Federal seed money expenditures will correspondingly diminish and hopefully come to an end. Ultimately, the state corporate trust funds should become completely independent.

Obviously, other reforms are important as well. All student loans should be consolidated into a unified program with unified eligibility. Students and loan administrators rightfully compain that the complexity of programs and the differences in eligibility create confusion, misunderstanding, and even anger on the part of students struggling to get financial aid for their education. They need the help of this subcommittee.

Policies of Lansing Area Banks—Higher Education Loans

AMERICAN BANK AND TRUST OF LANSING

(1) Individual or his or her family must have an account with the bank.

(2) Prospective college must be an eligible institution (Virtually all Michigan schools are eligible).

(3) All levels of students are eligible, but upperclasspersons get priority, as there is a set designated amount of funds earmarked by the bank for the program.

BANK OF COMMERCE OF LANSING

(1) If parents claim the student as a dependent, the family must reside in the Lansing area for two consecutive years. If the student is independent, he or she must be a resident of the Lansing area for two consecutive years.

(2) A student in any grade level is eligible.

(3) If student has declared a need, he or she needn't have an account with the bank. If student has not declared a need, he or she is required to maintain a checking account with the bank to facilitate easy withdrawal of interest payments.

BANK OF LANSING

(1) Parents are usually customers of the bank ("The loan is a goodwill gesture"). Student must be a customer.

(2) Student must be a sophomore or higher in standing.

(3) Loan must be used at an institution in Michigan.

MICHIGAN NATIONAL BANK

(1) Student or his or her parents must be a deposit customer of one year or more.

(2) Student must be at least a junior at a four-year institution or a second-year student in a junior college.

(3) The bank has not made any loans to students who had not previously taken out loans with it since August of 1973 because of high interest rates.

FIRST NATIONAL BANK OF EAST LANSING

(1) Student or his or her parents must be a one-year customer.

(2) Local high school graduates are preferred.

(3) Student must be a junior or higher.

(4) No loans to students who had not previously taken out loans with it have been given in several months because of high interest rates.

EAST LANSING STATE BANK

(1) Student or his or her parents must be a customer of the bank.

(2) Student must be a local high school graduate.

(3) Freshmen loans are one term at a time to avoid students getting tied to a long-term debt.

(4) No loans to students who had not previously taken out loans with it are now given because of high interest rates.

Jackson Area Banks

MIDWEST BANK

Student or parents must have an account.

NATIONAL BANK OF JACKSON

Does not participate, although it once did.

CITY BANK OF JACKSON

Each school is allotted certain amounts to be loaned and no more after that amount is exhausted (in some cases not enough loan money has been set aside for all individuals who need it).

STUDENT FINANCIAL ASSISTANCE
(Student Loan Programs)

WEDNESDAY, MAY 29, 1974

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Lehman, and Dellenback.

Staff: A. C. Franklin, counsel; Elnora Teets, clerk.

Mr. O'HARA. The Special Subcommittee on Education will come to order. This morning, the subcommittee continues its hearings on the loan component of the student financial assistance package.

Before turning to our witnesses, I would like to put a success story in the hearing record. Last month, action by this Subcommittee and our counterparts in the other body led finally to the enactment of Public Law 93-269, by which the needs analysis required of applicants for interest subsidy under the Guaranteed Loan Program was removed for families with adjusted incomes of $15,000 or less. While none of us expected that change in the law to remove all the problems families are having in securing loans for their kids' college costs, it was very gratifying to me to receive this week a letter from one citizen who has already been able to benefit from the provisions of that new amendment. I ask unanimous consent that the letter from Mr. Rudolph Pearson of Worcester, Massachusetts, be made a part of the hearing record at this point.

(The letter referred to, from Mr. Pearson appear on page 110):

We began this segment of our hearings yesterday with testimony from Dr. John Phillips and Mr. James Moore of the Office of Education who spoke about the history and status of the national direct student loan program and the guaranteed loan program, respectively.

The subcommitee has, of course, been involved in looking at the guaranteed loan program in the immediate past, having held the hearings which culminated in the enactment on April 18 of Public Law 93-269, legislation to liberalize access to interest-subsidized guaranteed loans. But at the time that particular legislation came before the House I reiterated my belief that we had to take a long-range look at the whole loan program as a part of these proceedings.

In the material which has been placed before the members of the subcommittee and I ask unanimous consent that these documents be printed at an appropriate point in the hearing record, I have directed the staff to place a compilation of the legislation dealing with loan programs. I have also obtained from the National Council on Higher Education Loan Programs a copy of its issue paper of last fall which discusses in considerable detail, many of the problems we will have to consider in the course of our work with title IV.

The text of that paper can also be found in the printed record of our earlier loan hearings. We will hear today from several witnesses who have been asked to speak from their experience in the operation of loan programs. We will begin with Mr. Lucius P. Gregg of the First Chicago University Finance Corp.

Mr. Gregg, we would appreciate it if you would step forward and take a place at the witness table and give us the benefit of your experience in the operation of the program.

STATEMENT OF LUCIUS P. GREGG, JR., PRESIDENT, FIRST CHICAGO UNIVERSITY FINANCE CORP.

Mr. GREGG. Thank you very much, Mr. Chairman. I am pleased to be here and to have this opportunity to make a few comments regarding our experiences with the student loan program. I would like to, with your permission, ask that my letter of March 21 be used as a letter of record and what I would like to do in a few minutes if I could, is to comment on some of the items raised in the letter and to add whatever additional information might be appropriate.

Mr. O'HARA. Mr. Gregg, without objection, the text of your March 21 letter will be inserted in the record at this point and printed in full in the record and we appreciate your comments.

Mr. GREGG. Thank you very much.

[The letter referred to follows.]

FIRST CHICAGO UNIVERSITY FINANCE CORP.
Chicago, Ill., March 21, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education, House Committee on Education and Labor, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN O'HARA: I am writing as a former university administrator, and now a banker, regarding the problems facing the Guaranteed Student Loan Program.

My most recent view of this program is based primarily on efforts at First Chicago University Finance to assure students better access to guaranteed loans. During the past year, we have sought to assist approved college and university lenders by providing the funds and loan servicing to meet their student loan needs under government guidelines. Our arrangement now encompasses 20 major colleges and universities for loan commitments of $20 million to meet this year's needs. During calendar year 1974, we will seek to assist 50 colleges and universities for annual amounts of approximately $50 million to be used starting with the fall academic year. For those who choose, we also stand ready to service their student loans through billing, collection, and loan accounting.

As you know, in the last few years an increasing number of higher educational institutions (160 to date) have sought and received approval to lend under the FISL Program. A few have preferred to use in-house funds and loan servicing capability. Other institutions have chosen instead to borrow funds if suitable arrangements could be made, and to contract for loan servicing, if this course could better meet the standards of professionalism, reliability, and cost.

For many schools, the ability to lend is a necessity and not a luxury since they are increasingly dependent on tuition to meet yearly expenditures. Student financial aid is a major source of tuition for the moderate and lower income students they seek to educate, and the GSL program is rapidly becoming a critical fraction of tuition aid for many students. Thus, to assure the availability of this aid each year, more and more schools are deciding to be a source of government guaranteed loans for enrolling students—either as a preferred source (first resort), or as a "last resort", lending only to those who are turned down by one or more banks.

If properly regulated and supervised, the school lender can be a major strength to FISL. In many ways it can be a more effective lender than a financial institution, but it likewise can have weaknesses as a lender which must be understood. The obvious challenge is to take advantage of the strengths and to compensate for the weaknesses.

THE GREAT CHASE

In general, the emergence of the school lender results from a growing phenomenon which seems to characterize the GSLP; we call it *The Great Chase.*

Students are chasing loans, and

Lenders (or government guarantors) are chasing students.

Either one could be the downfall of a program which has demonstrated remarkable growth in both volume and importance to students.

This program tries to serve many masters including a diversity of students, schools, and lenders—each with different needs, interests and capabilities. Unfortunately, this program tries to serve these different masters with the same procedures. In a real sense, the attempt to maintain uniform regulations in the face of such diversity can serve to aggravate rather than diminsh the problems. The end result is that symptoms are often treated—not causes. And it is these causes that help "fuel" the Great Chase.

Students chasing loans: Who pays?

Many students who *need* loans do not qualify and many who qualify for GSLP are simply unable to obtain loans. This lack of access highlights two inescapable and fundamental questions lying at the root of the problems facing the GSL program:

1. Whom is GSLP to serve?
2. How can lenders be encouraged to participate?

Consequences to students

As you know, there is much confusion in the marketplace regarding *whom the program is intended to serve.* I believe most people will agree that eligibility seems to be based on the difference between total educational cost and other available funds. From this point on, however, confusion abounds. Lenders are told to use judgment. But, they are likewise told that loan guarantees and insurance can be invalidated later if their judgements are deemed unreasonable. Obviously, a clearly understood policy on student eligibility is urgently needed.

Once eligible, though, the chase is on. Student demand far exceeds the supply of loan funds now available from financial institutions. The notion of equal student access for the full eligible loan amount is virtually non-existent throughout a substantial portion of the country.

While it is difficult to identify the exact consequences of *not* getting a loan, some evidence is beginning to accumulate. An increasing number of the willing-but-unable families are seeking installment loans and second mortagages; still others are discouraging younger siblings from thinking of going to college because of the unusual financial burdens presently being faced with older brothers or sisters. As for the students themselves, a growing number who still seek to enroll are borrowing increasingly from less desirable sources—thus increasing future debt management problems. Others are working more and delaying graduation. A sizable number of cases, (22% according to studies by the College Scholarship Service), demonstrate that the enrolled student is imposing an excessive burden on the family by removing earning capability, particularly for the poor families. It is ironic that those students and parents who persist face consequences of uncertain eligibility and uncertain availability of adequate guaranteed loan resources.

Consequences to colleges and universities

Colleges, too, bear the consequences of the CHASE. Certainly GSLP exists primarily to serve students, but its impact on colleges cannot be ignored. For the college which seeks to serve all deserving students, the availability of the GSLP is as important to the school as it is to the student.

One clear lesson of the recent financial crisis for private higher education, as one example, has been the need to stabliize income and to control costs. The call to manage the institution in a more business-like way has come from friend and foe. Thus, it is not surprising that a growing number of institutions seek to lend to assure students—and to be assured—of adequate GSL availability for students wishing to borrow.

AND LENDERS (OR GUARANTORS) CHASE STUDENTS

Much has already been said about the problems facing financial institutions in seeking successful student repayment. This may be the most serious long-run problem facing guaranteed loans; and it may in large part account for uncertain availability.

Many students are unable to pay, and still more are unwilling to pay. Some students, as in all forms of consumer lending, will do everything to avoid any payment; but there is increasing evidence that our procedures in common use aren't very effective either. In a real sense, it is plausible that the lending growth of the program has outstripped the development of effective administrative procedures.

If the objective is to increase the availability of funds to students at the lowest overall cost, one of the most important problems to address is the growing number of willful defaults and delinquencies.

REDUCING THE CHASE

In any discussion of GSLP, it is imperative to view it broadly as a dynamic system and as a distinct part of a financial capital market with finite resources and competing demands. With such a view, we believe that a few uncomplicated changes in the program can result in no less than a substantial reduction in annual cost to the government and in the rejuvenation of GSLP as a consistent and growing source of funds to students across the country. The changes suggested below can in large part be implemented within existing statutes. A few will require legislative change.

Improve the asset

A principle task for those who seek to improve the program is to address program structures which have substantially inhibited the origination of new student loans. Several features of the interest rate and guarantee make GSLP loans unattractive—each with significant disincentives to lending.

The interest rate earned by the lender on an insured student loan is variable, unknown at the time of origination of the loan, and at the discretion of the Secretaries of HEW and the Treasury (for amounts above 7%). A variable rate may be attractive to some intermediate-term lenders such as savings institutions—but its retroactive and discretionary nature inhibits he lender from making forward predictions of earnings on the basis of market data. Lenders respond to these unusual rate characteristics by severely restricting their new loan activity.

One way to relieve lender uncertainty is to tie the special allowance to the rate on a known money market instrument. This change would both eliminate discretionary uncertainty and allow the lender to make some market-based projections of earnings on GSLP loans. The recent enactment of a flexible usury ceiling rate in Pennsylvania tied to long-term government bond yields establishes a precedent which might be usefully applied to GSLP. A more responsive special allowance would increase lender interest and better insure a continuing supply of loans to students.

For example, at little or no cost to the government, lender enthusiasm for the program could be dramatically enhanced by the announcement that the total FISL rate would be, for example, always between 190 and 220 basis points (1.9%–2.2%) above the prior quarter's average of the market yields on 5 year treasury bonds and by the announcement of the actual rate at the beginning of the period. It is probably important to have this range, to allow for adjustments depending on conditions of supply, demand, and the trend of rates. By using 5 year money rates, which tend to be much more stable, the government can avoid overcompensating lenders during periods of abnormally high short term rates. Similarly, since the rate would also be the fixed rate on payout loans, a tie to longer term rates is appropriate.

Such a policy, had it been in effect historically, would have been no more costly than the actual experience. But its effect on lender confidence and enthusiasm would have been inestimable.

Secondly, we believe the program can be strengthened significantly by a fairly simple change with regard to due diligence in the origination and servicing of guaranteed student loans. The current lack of specificity in the requirements for due diligence discourages lending. These requirements should be restructured and then specifically defined to give lenders a firm basis on which to decide whether or not their guaranteed student loans in fact bear the "full faith and credit of the U.S. Government." To assist in this restructuring and definition of due diligence, the Government could turn to the now substantial experience of professional servicers in collecting student loans under several federal programs including GSLP. The above recommendations would serve to *reduce* two of the major *uncertainties* facing lenders (i.e., the interest rate, and the guarantee). While many more improvements could be suggested, these two alone would substantially enhance the viability and potential longevity of GSLP under competing and unpredictable future monetary circumstances.

Improve administrative effectiveness and followup

As a result of more than a decade of experience in servicing student loans, it is now possible to identify those procedures which result in the best response to repayment obligations—particularly as carried out by professional loan servicing organizations. Many of the most effective steps in making a good loan occur during the origination and pre-payout stages. The default statistics seem to bear this out. Perhaps most of the defaults never make the first payment. But this is the phase during which there is a most complex relationship between the major participants—lenders/schools/government/student borrowers. A loss of lender/borrower contact is readily apparent.

Under present procedures, effective communication here is both costly and often accidental. The result is a lack of discipline and weak coordination which contributes to high defaults. Since most retail lenders will assert that the most important aspect of a successful loan is the early creation of a regular payment pattern, every effort should be made to simplify and strengthen school/students/lender coordination—particularly in the early period of the loan. It would seem that better use of computer-aided information techniques will yield major improvements in the timely review and dissemination of loan decisions and student follow-up. These developments should be strongly encouraged.

Simplify debt-management

One additional aspect of the CHASE has to do with the ability of the student to repay just after graduation. A large fraction (maybe 20-25%) end up far below normal expected starting salaries. The growing dependence on loans must be accompanied by a commensurate willingness to allow these young borrowers (i.e. for $10,000 in loans) some latitude, within constraints, in meeting debt obligations. Under present regulations, lender forebearance is permissible, but widespread notice of this provision and application to each legitimate case would impose heavy administrative costs on lenders during repayment. An alternative would be to establish a standardized optional repayment schedule for heavy borrowers which calls for lower repayment in the early periods and larger ones thereafter.

The need for flexible repayment schedules for younger borrowers has recently led to the decision of The Federal Home Loan Bank Board to allow such repayment structures.

FURTHER REDUCING THE CHASE: THE COLLEGE AS LENDER

The notion of colleges as lenders strikes pride in the hearts of some—and disdain in the hearts of others. Our assessment is that, if proper standards are set, the college lender can be a major strength to the Guaranteed Student Loan Program. In many ways, it can be a more effective lender than many financial institutions, but it likewise can have weaknesses as a lender which must be understood. Can we capitalize on their strengths and compensate for their weaknesses? In taking a close look at the college lender, three questions must be asked:

1. Are they interested?
2. Can colleges decide who gets what?
3. Can they properly service loans after they are made?

Are colleges interested?

As mentioned earlier, for a substantial majority of higher education, the ability to lend is a necessity—not a luxury. Students are increasingly dependent on such loans to meet educational costs. Financial institutions are participating—but are unable to meet the overall student interest because of other large and varying competing demands. Because of the consequences, colleges feel compelled to assure students that adequate loan resources will be available each year. This assurance is best provided by the college itself acting as a lender.

Can colleges decide who gets what?

Colleges already carry out the most important responsibilities in the loan origination and prerepayment. Colleges currently recommend amounts and determine eligibility. They perform much of the pre-loan counseling and disburse approved loan funds in many cases. Moreover, they monitor student status during the enrollment period and provide loan counseling (exit interviews) upon graduation or departure from school. In a sense, of the major participants, colleges are in the best position to fully understand and be aware of a student's overall changing financial circumstances and requirements.

The experience of colleges to date as lenders would indicate that they have performed satisfactorily in making the decision as to who should get what in the disbursement of loan funds. It is our understanding that in the 15 year history of their allocation of NDSL funds, for example, they have complied in large measure to the rules and guidelines governing eligibility for these loan funds.

Can they service loans after they are made?

For a number of reasons, most schools are not in the best position to service their student loans adequately. Some, however, have done extremely well in loan servicing. But for the most part, loan servicing is not one of their strengths. Nor is it one of their top priority activities. Thus, it is not surprising that the involvement of capable individuals in campus-based loan serving activity is an exception and not a rule. Even for banks themselves, proper staffing loan servicing activities is a difficult task that requires close scrutiny and supervision.

In the last few years, a number of private off-campus firms have developed programs to act as loan servicing agents for colleges and universities throughout the country. Some loan servicing agencies are divisions of major financial organizations, others are independent companies. All seek to provide more effective student loan servicing and an overall cost savings for college loan portfolios that include institutional loans, NDSL, HPSL, and now GSLP.

There is evidence to show that one important effect of the professional loan servicing organization is to reduce substantially the level of repayment delinquencies and subsequent defaults which some schools experience in trying to service their loans themselves. The evidence to date suggests that the delinquency rate on an average portfolio will be cut by half when it is turned over to a professional servicer. This is particularly true for the five or six larger servicing organizations which have had several years of experience with college loan portfolios such as NDSL.

The important point is that effective and reasonable standards must be set which take advantage of the history of experience now available regarding the best ways to service student loans. A few colleges will have programs which can successfully meet these standards. Most of the others, however, should be expected to contract this service to an existing and capable off-campus professional student loan servicing organization because of the relative advantages presented by this alternative. These advantages include:

1. A more effective student loan repayment performance;
2. A higher level of professionalism in staffing;
3. A lower cost because of the economies of scale presented by several institutions being serviced by one central organization.

CONCLUSION

There are many problems that "fuel" the GREAT CHASE. Many of the problems result from root causes which must be carefully distinguished from apparent systems. While the demand for GSLP is increasing, the supply of funds is decreasing. It is extremely important to reaffirm whom the program is intended to serve, and it is equally important to identify how the needed growth in new lending can be attained. Current major financial institutions must be retained as active lending participants. But the participation of the college lender can—

with proper standards—be an equally beneficial asset to the Guaranteed Student Loan Program.

The overall effect of the approach we have suggested will be to provide far greater access of students to guaranteed student loans as an increasingly important way in which to finance higher education pursuits and to encourage both students and institutions to act more responsibly in the process.

Sincerely,

LUCIUS P. GREGG, JR.

Mr. GREGG. As I indicated in the letter, the principal activity that we have been involved in at First Chicago University Finance Corp. is directed at ways whereby we can help assure students better access to guaranteed student loans.

In general, our whole operation is built around how a wholesale activity of a major financial institution might complement the retail lending that is ongoing and continuing to be made by the same institution. As I have indicated, we now have commitments with approximately 20 of the major colleges and universities to meet this year's needs of around $20 million.

Our hope is that during the coming academic year, we will stand in a position to make available commitments of approximately $50 million to either a similar number of institutions or a slightly larger number.

Again, the idea is to see how the wholesale concept can substantially increase the funds available to students under this program.

Mr. O'HARA. Mr. Gregg, it might be useful if you could just describe exactly how your operation works.

Mr. GREGG. Yes. Our approach is directed toward an institution that becomes an eligible lender—there are approximately 160 colleges and universities that are now eligible lenders, who have sought and received authorization to be eligible under the FISL program. For for some of them, they have the capability to use internal funds, use endowment funds or other resources available within the institution as loan capital to lend out to students. These same institutions in some cases will have their own internal loan servicing capability. So they are basically independent and able to make the loans themselves, using internal funds and using their own internal administrative support for servicing.

Other institutions and perhaps most of them find that they are better off either leaving their internal resources in their endowment portfolio invested in the market and perhaps look outside to a local bank or under a suitable arrangement to borrow from a bank loan fund on a wholesale basis and the school itself as a lender will retail those funds to the student. This is basically the concept.

In some cases, they will borrow from a local bank, lend to the students, and they might service those loans internally, or in other cases they may look outside for loan servicing if they can get the necessary arrangement to meet their needs. The needs of professionalism might save them cash insofar as the loan servicer being able to service those loans at a much more attractive price than if they would service those loans internally themselves.

Mr. O'HARA. Your organization, the First Chicago University Finance Corp., makes loan capital available to universities that are approved as lenders under the program.

Mr. GREGG. Right, sir. On a wholesale basis.

Mr. O'Hara. Under what sorts of terms and conditions?

Mr. Gregg. The rate that is allowed to be charged is the rate that is under the FISL yield rate. It cannot exceed the authorized rate for that prevailing quarter. The loan commitment is an annual renewable commitment to the institution.

So, the loans we made last year to these institutions, last summer, those loans are up for discussion now and negotiation for renewal for the forthcoming year. For several of our institutions that received commitments of $2 million for last year, they are now negotiating with us for a total amount of $4 million for this forthcoming year, just to use one institution as an example.

But in so doing, the institution is able to assure the students, who are considering how to meet their financial costs for next year, access to guaranteed loans. They can have those students complete the forms now in applying for the loan and receive authorization for those loans from the lender and during the summer those forms are processed through the Government channels to receive the Government guarantee.

As others have perhaps mentioned, there is now increasing dependence on the guaranteed student loan. For many schools, the ability to lend is a necessity and not a luxury, as we are finding that schools are increasingly dependent on tuition as a source of revenue. Financial aid is an increasing component of that tuition and the guaranteed student loan is an increasingly important part of the financial aid package.

I think it is fair to say that as we travel about and talk to schools they express certain concerns, and those concerns revolve around the present statistics relating to guaranteed student loans. These statistics are not at all encouraging.

For the present year, only a billion dollars of guaranteed student loans will be lent out. This compares with the same level of 3 to 4 years ago and because of the increasing participation of, say, proprietary institutions, this would mean that the banks themselves are probably lending only at a rate of perhaps 4 or 5 years ago.

In other words, the participation by banks is decreasing on a year-to-year basis. Information that has come to us would indicate that perhaps 100 banks per month are stopping their lending under the guaranteed student loan program.

Another factor here to consider is the factor of inflation. If we go back 4 to 5 years and look at the level of lending and project up to the present, it would indicate that based on inflation alone, perhaps the level of lending for this year, to have the same real dollars, should be much closer to $2 billion than approaching $1 billion as is presently the case.

Another aspect is that for this year alone, it looks as though, compared to last year, volume will be down by 20 percent, and the average loan per student or borrowing is up by 10 percent. The net result of both of these, the cumulative effect, is that the number of students who will be borrowing has decreased by 25 percent this year compared to last year.

Again, the schools themselves are primarily concerned about access. When you can have this kind of reduction in access from one year to the next, this is causing many schools to feel that they have to be able to lend in order to assure the students the availability of these funds.

The school as a lender can be a major strength in the FISL program. In many ways, it can be a more effective lender than a financial institution, but it likewise can have weaknesses as a lender, which must be understood.

The opportunity before us is to take advantage of these strengths and to compensate for the weaknesses. If I could move on in the context of the letter and indicate that, as we see it, with regard to the consequences to the student of not being able to have access to these loans, many of these consequences are borne by the parents themselves.

This, of course, has received increasing publicity. But other consequences are borne by the students, and it forces, in many cases, students to make an economic choice about higher education rather than an educational choice to go to an institution of their choosing.

I would like to now touch on two or three suggestions regarding how to reduce the "chase" as we call it.

It is our feeling that what has happened in the guaranteed student loan program is something that in some circles is referred to as the great chase. Students are having to chase loans, and that chase sometimes is very traumatic. In other cases, after the loans are made, lenders and guarantors have to chase the students.

From our perspective, there are two, we hope, simple and uncomplicated recommendations that we would like to propose to help strengthen the program and reduce the chase. One is to improve the asset, and the other is to encourage the role of the school as a lender as a way of complementing bank participation in the FISL program.

Doubling back to how to improve the asset, we would like to make one recommendation with regard to the rate and another with regard to the guarantee. With regard to the rate, we would urgently recommend that some effort be made to tie the rate to a known money market instrument. This would make it possible for lenders to forecast their yield or earnings on student loan. Also, it would remove any uncertainty on the part of the lender that the Government might in its discretion be arbitrary in setting the yield so that it is no longer competitive with prevailing money market conditions.

I indicate in there one aspect of how to tie the rate. I think our studies from July 1969 to July of last year— that is, of 1973—would indicate that had the rate been tied at the fraction indicated, there would have been little or no more additional cost to the Government, but it would have removed lender uncertainty about what the earnings would have been on a guaranteed student loan.

The second recommendation to improve the asset has to do with the guarantee, and we would strongly recommend that an effort be made to define due diligence. That is, specify the conditions of due diligence which, if met, the Government would then provide an incontestable guarantee.

At the present time, the arbitrariness and uncertainty about what the requirements are to perform due care and diligence in order to protect the full faith and credit guarantee is something that is causing quite a bit of uncertainty, particularly as you talk to secondary market institutions like institutional investors who are much more concerned about the protection of that guarantee and especially in cases of someone else keeping responsibility to service those loans.

Basically, those are the two recommendations with regard to improving the asset.

The second major recommendation is the college as the lender. We feel that they are interested; we feel they can decide who gets what based on their performance in complying with the guidelines of, say, the previous program, the NDSL program. But we do not feel that many of them are adequately qualified to perform the kind of servicing responsibilities that the Government and all institutions would like to have performed.

For those who cannot measure up to the standards that we recommend with regard to the loan servicing, they would then look externally to a professional servicer. There are perhaps five or six rather highly qualified professional servicers now in existence, with 5 to 6 years of experience.

We would recommend that those institutions look to the growing number of professional service organizations to give the kind of professionalism to the servicing that would be necessary.

In conclusion, we feel that those couple of improvements would serve to substantially improve the FISL program, and the increasing role of the school as a lender should be viewed as one of complementing the participation that the banks are now giving in FISL.

The net result, we hope, would be a substantial increase in the availability of these funds for the students and for the growing demands that are being made on the program.

Thank you very much, Mr. Chairman.

Mr. O'Hara. Thank you, Mr. Gregg.

Mr. Gregg, I am interested by your suggestion. I really think that one of the great handicaps of the program is that it involves banks with the kinds of loans and kinds of people that they are not ordinarily involved with. That is, some fellow comes in and he is seeking a loan. They say, "What are your assets?" Well, he doesn't have any. "What security can you give us?" None. "Tell us about your job." "I don't have one."

Ordinarily, that is exactly the sort of fellow they would not loan 5 cents to under any set of circumstances. Some guy without a job, no immediate prospects of getting one, no assets, no security, no cosigner, no anything, and he comes in and says, "I want a loan."

There may be some special circumstances in which you say, "Well, all right," but for the most part you would say no to these people absent this program. I don't think that the universities, most of them anyway, are much more experienced in dealing with this kind of borrower. Ohio University has been making loans to students for a long, long time—maybe not on the scale that we have had since the NDSL and institutional participation in this program, but they have been doing it.

I know I borrowed money when I was in college from the university to help me finish law school. The GI bill was running out. I needed some money to finish law school. I borrowed from the university. They were experienced in dunning me, too, because they dunned me afterward. They made sure they got the money back. They knew how to do it, you know. They kept track of me.

So I kind of like the idea of involving more of the institutions in this. You spoke about how the program could be made more attractive in general; that it, providing that the incentive payment is pegged to some known security so that they have a much more assurance of what they are going to be getting.

You suggest that we be more specific about what constitutes due diligence, but in terms of encouraging the kind of thing that your organization is involved with—that is, making sums of loan capital available to the institutions and getting the institutions to participate in the program—what do you think would help promote that? What kind of changes could be made?

Mr. GREGG. There is perhaps a shopping list; there may be a large number of recommendations that one could make. Our hope has been to try to focus on the one or two or three most cogent recommendations that we feel would get the program substantially turned around.

For an institution like ours—that is, First Chicago Corp., which is part and parcel of the First National Bank of Chicago—it is basically a wholesale institution, and there are major financial institutions that are not very good at retail loans.

The savings institutions have demonstrated that large commercial banks have had difficulty in being very effective in the retail lending area. I think the best way in which an institution like ours can try to supplement our present retail program in ways that hundreds of millions of dollars can be made available each year is through the wholesale approach. With a very few people we can make available to this program basically hundreds of millions of dollars of loans each year to do this.

At University Finance right now, we have a staff of 10 people and with little or no growth I think we can adequately manage the loan administration of perhaps $50 million by the end of this year.

I say that without any laxity on our part because auditors have just finished reviewing our operation and have given us a clean bill of health. So we are not in any way doing this on a shoestring basis, but doing it in a way that will keep up with the standards throughout the whole parent company.

Mr. O'HARA. Let me get into a couple of specifics. In terms of the Sallie Mae operation, in what way can Sallie Mae be a help to a wholesaler such as yourself?

Mr. GREGG. In providing liquidity to the program. Basically, the approach that we are taking is that we provide the upfront financing or the interim financing which permits an institution to acquire its loan.

Mr. O'HARA. Can you sell your paper to Sallie Mae?

Mr. GREGG. The school lender will sell its paper to Sallie Mae. It would then be necessary for the lender to pay off the upfront loan they received from us in order to make those loans.

Mr. O'HARA. What if you are making loans to institutions, can you now, or would it do good if you were able to, take the paper you got from the institution and peddle it to Sallie Mae?

Mr. GREGG. Very much so, yes, particularly if the institution would be allowed to sell its loans at a discount which is now prohibited under the legislation except by special permission of the Commissioner or the Secretary.

If it were allowed to sell its loans at a rate that is comparable to what banks will be expected to discount, we could use the same secondary market, that is Sallie Mae. This would be particularly critical for the public institutions, the State institutions.

For example, there are perhaps 20 State universities that have licenses. Out of the 160 or so colleges or universities now authorized to lend, perhaps 20 of them are State universities. The major university in your State, sir, has a license. The limitation that they face is being able to stand as either a first-resort lender for this program or as we call it, a last-resort. That is, expecting their students to put forth a best effort to get their own loans, but for those who are unable to do so because they happen to be coming from a part of the State or from a town where the banks are not participating, the university itself has the capability to step in and make those loans.

We refer to the latter as a last-resort lender. For the kind of university, like, for example, the University of Michigan and Michigan State University, if they are able to sell those loans almost immediately after being made, they can in general stay within the restriction of their State limitations that prohibit them from borrowing funds.

So the ability to liquidate and to sell those loans would be almost an important prerequisite to allowing public institutions, that is those who have the adequate staff and administrative capability, to be able to participate in this program.

So, the liquidation either to us or to an institution like Sallie Mae would be extremely important to them. I would think also, if we look below the top 30 or 40 heavily endowed private universities, if we could get into those that have expanded substantially since World War II and are providing a good education, they cannot make the loans in a substantial volume and hold on to them year after year after year because of the question of liquidity.

So, a secondary market is almost a major factor in the deterrent that might stand in the way of schools actually trying to assure access to their students by lending.

Mr. O'Hara. Mr. Gregg, would it add, do you think, to the attractiveness of the kind of operation that you are involved in if in addition to guaranteeing the lender 80 percent of the principal amount loaned to the student, in addition to guaranteeing the lender that he is going to get his principal back from the student, maybe we ought to extend the guarantee to an institution like yours, you are going to get the money back from the institution. What reaction do you have?

Mr. Gregg. That would be a considerable benefit to the program. It is one that I would like to, if at all possible, give some thought to and provide your staff with a supplementary comment on that particular point.

Mr. O'Hara. You can be in touch with the staff and be of assistance in this matter. Many of the members of the subcommittee are interested in expanding the kind of operation that you have involved yourself in and described to us today. We would be interested in just what kind of things would assist institutions to get involved in the program.

We think that would be one way of improving it.

Mr. Gregg. I certainly would appreciate the chance to comment on just that and to provide a recommendation or two.

We face basically two risks when we look at institutions of higher education. In the general vein it is very difficult to look at a financial statement of, let us say, just a private college and to assess its financial viability.

That is, if we were to lend to them what is the likelihood that they will be in existence 5 years later in order to repay that loan? Naturally, our reaction is an obvious one. We stay so much on the safe side insofar as the institutions that we are not getting as close to the central nervous system of higher education as we would like. That is based on our ability to predict the financial viability of that institution.

The suggestion you threw out for discussion is one that would address just that basic concern. When we lend to an institution, they pledge those student notes to us as collateral to be held until they successfully pay off that loan.

So, we don't have a credit risk problem in the sense that we are holding the collateral. We ourselves are an eligible lender under the program and if an institution could not or refuses or is unwilling to pay off the loan, that collateral protects our loan to the institution.

The amount of our loan outstanding is always equal to the amount of the collateral that we are holding in our vault in First Chicago. So, the credit risk is not a major concern as we stand right now. But there is a liquidity concern. That is, to some extent these are annual renewable lines of credit.

The institution is borrowing short and lending long. Sallie Mae will be a major factor in the ability of that instituiton to make loans. It stands as a source of liquidity to that institution in selling its loans.

Government insurance on a loan such as one that we will make not only will take care of the liquidity problem, but may open up some secondary market opportunities insofar as the institutional loans are concerned.

Mr. O'Hara. I would like you to give some thought to that and make some suggestion along those lines.

Mr. Gregg. Yes.

Mr. O'Hara. Mr. Lehman, do you have any questions?

Mr. Lehman. No; but I would like to find out how to start the same thing in my district that you started. It is very fascinating that we have a First National Bank of Chicago, we have a First National Bank in Miami that is more related to the financial structure of our area.

I would like to bring this to the attention of some of the executive officers there to see if they cannot initiate something like this for our community with a spinoff of the First University Finance Corp. They just don't know how to get the show on the road.

To me, it is not only a moral obligation, but a civic obligation to do something along these lines. I will send a letter to Phil Allen and send this statement of yours. You might get an offer you can't refuse.

Mr. Gregg. Mr. Chairman, there is someone here this morning with me, James Leonard, who is chairman of the board of University Finance. He was asked 2 years ago by Gaylord Freeman, chairman of the First National Bank of Chicago, to take some time off and to think of a major way, an important way, in which the bank can address a new market that is not being addressed at the present time. So, based on the time he took off, the outcome led to the creation of a wholly owned new subsidiary.

I was asked to come from the Sloan Foundation in New York—I had previously been on the staff of Northwestern University—to come and head this up and try to move ahead on this relationship. He is here now. He had to face many of the concerns that I think are now being expressed by your bankers in Miami. How can you do this in a way that is cost efficient—can we do it in a way in which we can make substantially more money available than would be justifiable under a retail program?

Mr. LEHMAN. If a bank did it in our area it would make its image different from any other bank in the area. With the interest rates that banks are charging, they are not exactly the good guys anymore, so they can use a little help.

Mr. O'HARA. Mr. Gregg, I want you to make sure you introduce Mr. Leonard to Mr. Lehman. Also, Mr. Leonard, I hope you will be thinking about ways in which we can amend the program to promote the kind of activity that First Chicago University Finance Corp. is involved in.

We will be happy to hear from you with any suggestion you might have.

Thank you very much, Mr. Gregg.

Mr. GREGG. Thank you, Mr. Chairman.

[Mr. Gregg later submitted the following material.]

FIRST CHICAGO UNIVERSITY FINANCE CORPORATION,
Chicago, Ill., July 11, 1974.

HON. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
House Committee on Education and Labor,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: As a follow-up to your suggestion during the May 29th hearings, we are pleased to submit our specific recommendations for legislative changes in the Guaranteed Student Loan Program, changes which we believe can substantially strengthen the program and better assure students of access to insured loans. These changes would involve three coordinated and complementary developments.

First, we suggest some changes in the administration of GSLP, with particular reference to the manner in which the governmental special allowance is determined and announced and to the conditions governing the applicability of federal insurance to a defaulted loan. The proposed changes will enable lenders to make better assessments of expected yields from lending in GSLP and to understand better the conditions governing loan guarantees.

Second, we recommend the encouragement of lending by institutions of higher education under certain conditions. We believe an expanded role for school lenders can further improve student access to loans and make available wholesale private capital in far greater amounts than those which can be attracted on a retail basis by students.

Third, building on your suggestion of a guarantee of our loan to the school lender, we suggest the establishment of a student loan backed security. This kind of security, guaranteed by a special governmental body, would be a program innovation that would be cost free to the government and would serve to attract large amounts of private investment capital from long-term institutional investors who do not normally invest directly in student loans. Our proposal is based on the proven attractiveness of a government precedent already established in the FHA–VA mortgage area. This program would stimulate greater lending by existing financial lenders and by private educational institutions and would enable public colleges and universities to lend as well.

In summary, adequately staffed school lending backed by private wholesale capital can complement improved retail lending of financial institutions. In addition, new loan origination capacity can be stimulated by the attraction of new long-term sources of funds to complement the efforts of the Student Loan Marketing Association. This would particularly address the problem of the inevitable contraction of the program which occurs when depository institutions (i.e., banks and thrift institutions) with short maturity liabilities attempt to cope with the liquidity problems and earnings pressure of periods of tight money. While well suited to retail or wholesale origination of FISL paper, such institutions must have alternatives for transfer of such assets to maintain their origination capacity. The program balance achieved thereby should provide an attractive and cost-efficient government means of encouraging private support of postsecondary education.

The discussions which led to these proposed changes are based on the need to make the guaranteed student loan *continuously* attractive to the most *appropriate* financial capital markets. As you well know, inconsistency in the availability of loan funds has represented a major program weakness in the recent past. The trend in new loan volume has corresponded directly with the net return to lenders. These trends in new volume and net return are shown in the attached graphs.

While the recent student loan dollar volume has only declined 10% per year, the 10% per year increase in average borrowing per student to keep pace with rising costs has reduced the numbers of students getting loans from 1.3 million in fiscal year 1972 to only $820,000 in fiscal year 1974 (or 20% per year decline in access). In earlier hearings, however, Congress estimated that the need to assist students from moderate and low-income families (about 25% of total enrollment) would require a new loan volume of over $2 billion per year in this fiscal year 1975.

Our suggested changes are based on the recognition of this need for an additional $1 billion of loans per year. We are cautiously optimistic that these changes will accomplish this goal without exorbitant costs. They key to the successes of this approach lies in the replication of an established government form of assistance for student loans with the same economies as this existing government-private enterprise partnership.

Thank you again for the chance to recommend these changes. We look forward to providing any additional assistance you might think appropriate.

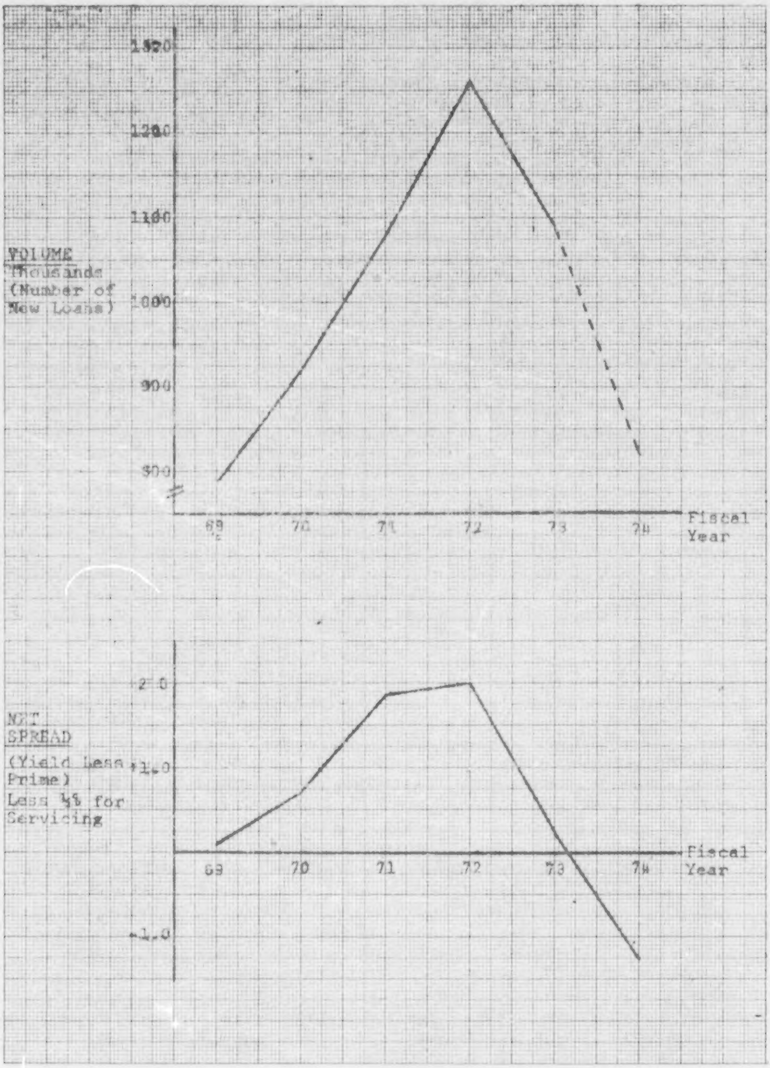
Sincerely,

LUCIUS P. GREGG, Jr.,
President.

Enclosures.

BEST COPY AVAILABLE

ATTACHMENT A



ATTACHMENT B

PROPOSED CHANGES TO LEGISLATION

While we have taken the liberty of indicating precise change to existing legislation, we do so only as example and in full recognition of the overriding counsel expertise of your staff.

I. LOAN ORIGINATION (MAXIMUM ACCESS)

A. Lender Should Know Expected Yield and Risk.

1. Eliminate discretionary uncertainty in determining special allowance.

In accordance with the Emergency Insured Student Loan Act of 1969:

Sec. 2(a)(1) reads: "Whenever the Secretary of Health, Education and Welfare determines that the limitations on interest of other conditions . . . considered in light of the then current economic conditions and in particular the relevant money market, are impeding or threatening to impede the carrying out of the purposes (insured student loans) and have caused the return to holders of such loans to be less than equitable, he is hereby authorized . . . to prescribe . . . a special allowance."

It is recommended that Sec. 2 (a) (1) be amended by:

(*a*) Striking out "but no such percentage . . . in excess of three percentum per annum", and inserting in lieu thereof, "but not to exceed such percentum as the Secretary finds necessary to meet the needs of the student loan market."

(*b*) Adding at the end of Sec. 2 (a) (1) the following sentence:

"The method of determining this special allowance will be set forth in regulations for the benefit of participating lenders. It shall be determined so as to provide an equitable return to the holder, and set forth on the basis of a prescribed fixed relationship to the prevailing Treasury Bill rate. In addition, the Commissioner is also authorized to fix the special allowance at a constant value for the full maturity of an insured student loan, on a prescribed basis, when determined to be more appropriate to the holder in furthering the purposes of this Act."

Comments:

(*a*) The purpose of the amendment is that lenders should better understand the expected return on student notes, and that the HEW Secretary be authorized to establish the special allowance method, by removing present ceiling. We only advocate fair, not high, interest rates.

(*b*) The importance of prescribing the amount of the special allowance to meet the purposes of the Act should be reaffirmed (i.e., the interest in light of relevant money market conditions which cause the rate to be less than equitable).

(*c*) The Secretary of Health, Education and Welfare should consult the appropriate representatives of the private lending community in order to achieve the maximum support of participating lenders. If possible, this manner might consider tying the rate to a known money market instrument such as a Treasury Bill.

(*d*) Without the assurance of an "equitable" rate, an originating lender will have to hold a substandard loan, or sell to the secondary market at a deep discount which will discourage future origination.

2. Eliminate the uncertainty in the specified condition of the guarantee.

In accordance with the Higher Education Act of 1965:

Sec. 430 (d) reads: "Nothing . . . shall . . . excuse the holder . . . from exercising reasonable care and diligence in the making and collection of loans . . ."

It is recommended that Sec. 430 (d) be amended by:

(*a*) Adding at the end thereof, the following sentence: "For the benefit of participating lenders and holders, the conditions of care and diligence shall be set forth in regulations, which if met, will provide the holder an incontestable pledge of loan insurance."

Comments:

(a) It is not inappropriate for a holder to take some risk for failing to comply with prescribed administrative standards. These conditions, however, should be known and understood.

(*b*) The setting of these conditions will alleviate lender uncertainty that the government will be capricious in the indiscriminate invalidation of insurance.

(*c*) Due diligence should be defined in such a way that the holder will understand the conditions, which if met, will assure an incontestable insurance, not unlike the procedure which has been acceptable to lenders in administering FHA–VA loans.

(*d*) The advice of experienced and professional servicing groups should be sought in establishing the conditions of due care and diligence.

B. Schools Should Be Encouraged to Lend with Appropriate Standards

1. In accordance with the Higher Education Act of 1965:

Sec. 423 (a) reads: "Except [for various reasons of residence] the Commissioner shall not issue [a direct federal license . . .] . . . to lenders in a State if he determines that every eligible institution has reasonable access in that State to a State . . . program . . ."

It is recommended that Sec. 423 be amended by adding at the end thereof, the following new subsection:

"(c) For the purposes of this section, reasonable access shall be determined by the Commissioner on the basis of whether potential and eligible student borrowers can be assured that insured loans will be available in adequate amounts on a continuing basis. In furthering this assurance, the Commissioner shall issue certificates of insurance to educational institutions that meet reasonable minimum standards for making and servicing loans under this part."

Comments:

(a) This change will authorize the Commissioner to allow educational institutions (particularly colleges and universities) to participate as either a preferred source of loans, or a last resort source as appropriate.

(*b*) Such license will permit such authorized institutions to assure students of the availability of such loans at the time when the student is deciding whether to pursue a postsecondary education.

(*c*) Schools can look to internal resources or borrow funds under attractive conditions from interested major financial institutions who desire to make more funds available to students (i.e., on a wholesale basis) than can be justified under their retail lending program alone.

(*d*) The Commissioner should establish minimal administrative standards for school participation as lenders in order to assure due care and diligence in the making and servicing of these loans. *The availability and use of contracted outside professional servicing* should be an important factor in meeting due diligence standards for many schools.

(*e*) If possible, reasonable standards should be based on the commitment of the institution to meet minimum requirements of the size and quality of their appropriate administrative staff.

II. A STUDENT LOAN-BACKED SECURITY (SLBS) (KEY LEGISLATIVE PROVISIONS ATTACHED)

A. What is it?

We propose the establishment of a government guarantee of the timely payment of principal and interest on an instrument backed by an earmarked pool of insured student loans.

Such authority would be analogous to the FHA-VA mortgage-backed security program of the Government National Mortgage Association (Ginnie Mae) of HUD.

Having started in 1970, the GNMA mortgage-backed securities issued over three years totaled more than $7.3 billion and commitments reached $11.6 billion to institutions for private capital investments in FHA-VA mortgage pools. More significantly, these securities have attracted private pension funds, state and local, retirement funds, union funds, bank trust funds, bank security portfolios, and other non-mortgage oriented institutions which now comprise over 80% of the new issues.

No Congressional appropriations are needed. Income needed to support the public corporation would be derived from (1) collecting a reasonable guarantee fee at the time of commitment, and (2) net income from a government-owned pool of insured student loans which have been purchased by funds from Treasury borrowings or the government sale of participation certificates to private financial institutions. The net income from this financing approach would substantially off-set administrative and guarantee expenditures.

By attracting capital from long-term investors, organizations like a University Finance (i. e., mortgage bankers) would seek such investment commitments, and purchase loans from originating schools and financial institutions to form the portfolio pool of student loans which will then be owned by the investor and serviced by the University Finance-type organization which will have received government approval to issue this security and service the pool of student loans for an established fee from the investor. If the analogy of the mortgage market is followed, many financial corporations and banks will expand into this market and provide necessary servicing. As such, this will complement the secondary marketing activities of SLMA.

Since security commitments can be made well in advance of purchase by the investor, financial and school lenders can thereby make loans with the assurance of a timely purchase. Properly staffed and approved public universities—many of which cannot borrow funds to originate loans—can be assured of receiving cash by selling loans shortly after origination.

One advantage of this approach is that it offers originating lenders the choice of (1) making loans to hold; (2) selling to SLMA; or (3) the additional option of obtaining liquidity from a Student Loan-Backed Security.

In addition, this security represents a simple instrument which avoids much of the complexities of loan servicing (i. e., paperwork, servicing, documentation, defaults and delinquencies) and provides a ready opportunity to sell to others if later desired.

B. Government Concerns and How It Works

As with GNMA, the guaranteed security would be held by an investor as assured of timely payment of principal and interest, whether collected or not by the approved private organization responsible for servicing the earmarked pool of insured student loans held in trust (at a bank for example).

Securities will be issued through approved private and government sponsored organizations. To allow for orderly growth, preference, in selection of initial issuers should be given to organizations which have the strongest possible capital base (perhaps as measured by net worth) and which can support initial commitments in excess of some minimum level (i.e., $10 million). This provision would avoid undue proliferation of issues and limit the number of approved issuers to a level which can be controlled by HEW and Treasury.

The pool of student loans which back the security *must be placed in the custody of a regulated financial institution and serviced* with acceptable standards and monthly reporting.

Fees authorized to be paid by original financial or school lenders, or by SLBS issuers include those for application, guarantee, servicing, custodial services, etc.

The issuer will make payments to the investor within, say 45 days of the date due. On delinquent collections which exceed 45 days, the issuer must make the payment in the full amount due. If the issuer cannot make such payment, it will notify the incorporated division of HEW to take over the obligation. The public corporation will then make the payment due; it can then hold or sell the pool of loans to another secondary market institution and it will have recourse to the former issuer in case of malfeasance or failure to comply with proper standards. Claims on defaulted loans will be filed by and paid to the issuer from the Student Loan Insurance Fund under the FISL procedures.

An important provision will relate to the attractiveness of the SLBS yields to potential investors. The variable rate nature of a student loan presents a serious difficulty to investors in comparing such loans with traditional fixed rate investments such as mortgages and corporate and government bonds. As a result, we strongly recommend that HEW establish procedures for fixing yields on the portfolio of loans which back a student loan security. We also strongly recommend that discounts of a routine nature be authorized in the selling of student loans under the SLBS provisions, for school lenders as well as financial institutions.

The Secretary of HEW will give notice of proposed regulations as to the precise form the security should take, the expected procedures, and to seek the views of public and private officials for early implementation.

C. Attractiveness To Individual, as well as Institutional Investor

While the long-term institutional investor represents a major and more continuing source of liquidity, some form of the SLBS could be equally attractive to the individual investor. A variable rate and the safety of a government guarantee will be attractive features. The remaining features that would be required to attract this class of investor would be ease of access, reasonable denominations and liquidity. It would be possible to accomplish this without great difficulty.

For example, if legislation providing for Student Loan Backed Securities were enacted, it would be simple to add provisions creating a retail class of such securities. Admitting the problems and costs of providing access to individuals and the higher transactions costs, the necessary provisions might include:

1. Minimum denominations of $5,000–$10,000;
2. Extension of the government securities exemption to securities registration; and
3. Insuring that the ability of commercial banks to deal in, underwrite, and sell government and municipal securities would extend to this instrument.

There are a number of advantages to this approach. Probably the most important is that the necessary mechanisms are already in existence and operating. The government securities dealers market is well established as are the facilities of the many commercial banks that will execute the purchases and sales of such securities for individuals. It would be a simple matter to add this kind of security to the stream of existing transactions. Such a development might broaden the market and inject new funds quite quickly compared with the process of creating and developing a network to the institutional market. Of course, in the long run both developments are complementary and highly desirable.

(See Attachment C for suggested legislative language.)

STUDENT LOAN-BACKED SECURITY

It is recommended that Part B Title IV of the Higher Education Act of 1965 be amended by adding at the end thereof the following new section:

PURPOSE

STATUTORY OBJECTIVES

Sec. 440(a) The Congress hereby declares that the purpose of this section is to authorize the establishment of a public corporation without capital stock to issue and sell securities, collateralized by insured student loans, insured by the Commissioner under this part, and which provide liquidity for student loan investments in addition to other programs authorized under this Act.

CREATION OF PUBLIC CORPORATION

CORPORATE STATUS

Sec. 440(b)(1) There shall hereby be created a body corporate which shall be in the Department of Health, Education and Welfare. The corporation shall have succession until dissolved by Act of Congress. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Agencies or offices may be established by the corporation in such other place or places as it may deem necessary or appropriate in the conduct of its business.

MANAGEMENT

Sec. 440(b)(2) All powers and duties of the corporation shall be vested in the Secretary of Health, Education and Welfare, and it shall be administered under the direction of the Secretary. Within the limitations of law, the Secretary shall determine the general policies which shall govern the operations of the corporation, and shall have power to adopt, amend, and repeal bylaws governing the performance of the powers and duties granted to or imposed upon it by law. The Secretary shall select and effect the appointment of qualified persons to fill the offices of president and vice president, and such other offices as may be provided for in the bylaws, with such executive functions, powers, and duties as may be prescribed by the bylaws or by the Secretary, and such persons shall be the executive officers of the corporation and shall discharge all such executive functions, powers, and duties.

Loan Purchase Authority and Price Limitation

Sec. 440(b)(3) For the purposes set forth in Sec. 440(a) and subject to the limitations and restrictions of this section, the corporation is authorized, pursuant to commitments or otherwise, to purchase, service, sell, or otherwise deal in any student loans which are insured under the Higher Education Act of 1965: provided, that the corporation may not purchase any student loans at a price exceeding 100% percentum of the unpaid principal amount thereof at the time of purchase, with adjustments for interest and any comparable items.

Management and Liquidating Functions

Sec. 440(c)(1) To carry out the purposes set forth, the corporation is authorized and directed to establish separate accountability for all its assets and liabilities and to maintain such accountability for the orderly liquidation of such assets and liabilities as provided in this secton.

PRIVATE FINANCING

Sec. 440(c)(2) For the purposes of section and to assure that, to the maximum extent, and as rapidly as possible, private financing will be substituted for Treasury borrowings otherwise required to carry student loans held under the aforesaid separate accountability, the corporation is authorized to issue, upon the approval of the Secretary of the Treasury, and have outstanding at any one time obligations having such maturities and bearing such rate or rates of interest as may be determined by the corporation with the approval of the Securetary of the Treasury, to be redeemable at the option of the corporation before maturity in such manner as may be stipulated in such obligations; but in no event shall any such obligations be issued if, at the time of such proposed issuance, and as a consequence thereof, the resulting aggregate amount of its outstanding obligations under this subsection would exceed the amount of the corporation's ownership under the aforesaid separate accountability, free from any liens or encumbrances, of cash, and obligations of the United States or guaranteed thereby, or obligations, participations, or other instruments which are lawful investments for fiduciary, trust, or public funds. The proceeds of any private financing effected under this subsection shall be paid to the Secretary of the Treasury in reduction of the indebtedness of the corporation to the Secretary of the Treasury under the aforesaid separate accountability. The corporation is authorized to puchase in the open maket any of its obligations outstanding under this subsection at any time and at any price.

TREASURY FINANCING

Sec. 440(c)(3) The corporation may issue to the Secretary of the Treasury its obligations in an amount outstanding at any one time sufficient to enable the corporation to carry out its functions under this section, such obligations to mature not more than ten years from their respective dates of issue, to be redeemable at the option of the corporation before maturity in such manner as may be stipulated in such obligations. Each such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of the corporation. The Secretary of the Treasury is authorized to purchase any obligations of the corporation to be issued under this section, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include any purchases of the corporation's obligations hereunder.

AUTHORITY TO GUARANTEE SECURITIES

Sec. 440(c)(4) The corporation is authorized, upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal and of interest on such trust certificates or other securities as shall (1) be issued to private or government-sponsored organizations approved for the purposes of this section by the corporation, and (2) be based on and backed by a trust or pool composed of student loans which are insured under Title IV of the Higher Education Act of 1965.

FEES AND CHARGES

The corporation shall collect from the issuer a reasonable fee for any guaranty under this section and shall make such payment as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment.

Any Federal, State, or other law to the contrary notwithstanding, the corporation is hereby empowered, in connection with any guaranty under this section, whether before or after any default, to provide by contract with the issuer for the extinguishment, upon default by the issuer, of any redemption, equitable, legal, or other right, title, or interest of the issuer in any student loan or student loans constituting the trust or pool against which the guaranteed securities are issued; and with respect to any issue of guaranteed securities, in the event of default and pursuant otherwise to the terms of the contract, the student loans that constitute such trust or pool shall become the absolute property of the corporation subject only to the unsatisfied rights of the holders of the securities based on and backed by such trust or pool.

FULL FAITH AND CREDIT

The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this section.

Separate Accountability

BENEFITS AND BURDENS THAT INURE TO SECRETARY OF TREASURY

Sec. 440(d) All of the benefits and burdens incident to the administration of the functions and operations of the corporation under section (c) of this title, after allowance for related obligations of the corporation, its prorated expenses, and the like, including amounts required for the establishment of such reserves as the Secretary of Health, Education and Welfare shall deem appropriate, shall inure solely to the Secretary of the Treasury, and such related earnings or other amounts as become available shall be paid annually by the corporation to the Secretary of the Treasury for covering into miscellaneous receipts.

General Powers

CORPORATE POWERS AND SUE AND BE SUED

Sec. 440(e)(1) The corporation shall have power to adopt, alter, and use a corporate seal, which shall be judicially noticed; to enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as it may deem appropriate, with any agency or instrumentality of the United States, or with any State, Territory, or possession, or the Commonwealth of Puerto Rico, or with any political subdivision thereof, or with any person, firm, association, or corporation; to execute, in accordance with its bylaws, all instruments necessary or appropriate in the exercise of any of its powers; in its corporate name, to sue and to be sued, and to complain and to defend, in any court of competent jurisdiction, State or Federal, but no attachment, injunction or other similar process, mesne or final, shall be issued against the property of the corporation or against the corporation with respect to its property.

AUTHORITY TO SET FEES DISCOUNTS, RATES

Sec. 440(e)(2) To further the purposes of this Act, of providing for a greater degree of liquidity on a continuous basis to the student loan investment market, regulations will be set forth regarding limits to allowable fees, discounts, and rates. To the maximum extent possible and to minimize uncertainty to originators and holders, the published manner of prescribing these allowances will be determined such that the yield to potential holders can be compared and will be competitive with similar security investment opportunities. Such prescribed allowances as set forth will be authorized for use by all eligible lenders within the provisions of this part.

Fiduciary Powers

FIDUCIART POWERS (1) AND AUTHORITY TO GUARANTEE

Sec. 440(f)(1) Notwithstanding any other provision of this part or of any other law, the corporation is authorized under subsection (c) to create, accept, execute and otherwise administer in all respects such trusts, receiverships, conservatorships, liquidating or other agencies, or other fiduciary and representative undertakings and activities, hereinafter in this subsection called "trusts", as might be appropriate for financing purposes; and in relation thereto the corporation may acquire, hold and manage, dispose of, and otherwise deal in any student loans or other types of obligations in which the Department of Health, Education and Welfare may have a financial interest. The corporation may join in any such undertaking and activities notwithstanding that it is also serving in a fiduciary or representative capacity; and is authorized to guarantee any participations or other instruments, issued for such financing purposes.

SEC EXEMPTION (2) AND ESTABLISHMENT OF TRUSTS (3)

Participations or other instruments issued by the corporation pursuant to this subsection shall to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission.

Subject to the limitations provided in paragraph (7) of this subsection, one or more trusts may be established as provided in this subsection by the Department of Health, Education and Welfare, but only with respect to loans to help finance student loan programs.

TRUST INSTRUMENT (4)

The head of this department hereinafter in this subsection called the "trustor" is authorized to set aside a part or all of any obligations held by him and subject them to a trust or trusts and, incident thereto, shall guarantee to the trustee timely payment thereof. The trust instrument may provide for the issuance and sale of beneficial interests or participations, by the trustee, in such obligations or in the right to receive interest and principal collections therefrom; and may provide for the substitution or withdrawal of such obligations, or for the substitution of cash for obligations. The trust or trusts shall be exempt from all taxation. The trust instrument may also contain other appropriate provisions in keeping with the purposes of this subsection. The corporation shall be named and shall act as trustee of any such trusts and, for the purposes thereof, the title to such obligations shall be deemed to have passed to the corporation in trust. The trust instrument shall provide that custody, control, and the administration of the obligations shall remain in the trustor subjecting the obligations to the trust, subject to transfer to the trustee in the event of default or probable default, as determined by the trustee, in the payment of principal and interest of the beneficial interests or participations.

DISPOSITION OF PROCEEDS (5) AND EFFECT OF SALES

Collections from obligations subject to the trust shall be dealt with as provided in the instrument creating the trust. The trust instrument shall provide that the trustee will promptly pay to the trustor the full net proceeds of any sale of beneficial interests or participations to the extent they are based upon such obligations or collections. Such proceeds shall be dealt with as otherwise provided by law for sales or repayment of such obligations. The effect of both past and future sales of any issue of beneficial interests or participations shall be the same, to the extent of the principal of such issue, as the direct sale with recourse of the obligations subject to the trust. Any trustor creating a trust or trusts hereunder is authorized to purchase, through the facilities of the trustee, outstanding beneficial interests or participations to the extent of the amount of his responsibility to the trustee on beneficial interests or participations outstanding, and to pay his proper share of the costs and expenses incurred by the corporation as trustee pursuant to the trust instrument.

GUARANTY BY TRUSTOR (6)

When any trustor guarantees to the trustee the timely payment of obligations he subjects to a trust pursuant to this subsection, and it becomes necessary for such trustor to meet his responsibilities under such guaranty, he is authorized to fulfill such guaranty.

APPROPRIATION ACT AUTHORIZATION (7)

Beneficial interest or participations shall not be issued for the account of any trustor in an aggregate principal amount greater than is authorized with respect to such trustor in an appropriation Act. Any such authorization shall remain available only for the fiscal year for which it is granted and for the succeeding fiscal year.

APPROPRIATION AUTHORITY FOR INSUFFICIENCIES (8)

The corporation, as trustee, is authorized to issue and sell beneficial interests or participations under this subsection, notwithstanding that there may be an insufficiency in aggregate receipts from obligations subject to the related trust to provide for the payment by the trustee (on a timely basis out of current receipts or otherwise) of all interest or principal on such interests or participations (after provision for all costs and expenses incurred by the trustee, fairly prorated among trustors). There are authorized to be appropriated without fiscal year limitation such sums as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require on account of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (7) of the subsection. Such trustor shall make timely payments to the trustee from such appropriations, subject to and in accord with the trust instrument.

ROLLOVER AUTHORITY (9)

In the event that the insufficiency required by the trustee is on account of principal maturities of outstanding beneficial interests or participations authorized to be issued pursuant to paragraph (7) of this subsection, or pursuant hereto, the trustee is authorized to elect to issue additional beneficial interests or participations for refinancing purposes in lieu of requiring any trustor or trustors to make payments to the trustee from appropriated funds or other sources. Each such issue of beneficial interests or participations shall be in an amount determined by the trustee but not in excess of the aggregate amount which the trustee would otherwise require the trustor or trustors to pay from appropriated funds or other sources, and may be issued without regard to the provisions of paragraph (7) of this subsection. All refinancing issues of beneficial interests or participations shall be deemed to have been issued pursuant to the authority contained in the appropriation Act or Acts under which the beneficial interests or participations were originally issued.

First Chicago University Finance Corporation,
Chicago, Ill., August 23, 1974.

Hon. James G. O'Hara,
Chairman, Special Subcommittee on Education, House Committee on Education and Labor, Cannon House Office Building, Washington, D.C.

Dear Congressman O'Hara: The attached discussion paper completes our recommended changes on how school lenders—with proper back-up support and regulations—can assure students access to guaranteed loans.

We are pleased to have been invited to make these specific suggestions, and I am particularly grateful the financial expertise which our sister organization, The First National Bank of Chicago, made available. From our experience, the improvements proposed will permit the Guaranteed Student Loan Program to achieve its desired objectives, with appropriate roles for schools, financial institutions, and government.

Our July 11 letter focused on the specific recommendations for legislative change. The attached discussion suggests why and how—particularly with concern for access and equity. Specifically, it address the following:

1. Today, GSLP lending should be over $3 billion per year—with capacity for $5 billion by 1979—to meet students needs.
2. Banks alone probably will not be able to meet this demand through direct lending to students. This $3–$5 billion per year is several times larger than the annual growth in all personal loans by commercial banks. Private capital is, however, more available if tapped in larger denominations.
3. School lenders, with backing from banks, can provide students more assured access, and more effectively tap the wholesale private capital market.
4. Banks will lend to all government approved school lenders if they can be assured of repayment by selling the school-originated student loans to secondary market investors (and with a fair return).

5. The proposed "Student-Loan-Backed Security" provides banks with thi assurance and thereby makes it possible for all approved schools (public and private, rich and poor) to meet their students' needs. Loan servicing would be performed by financial institutions.

6. To prevent abuse, we propose that the "industry"—namely higher education and vocational training institutions—be given an opportunity to police itself. Self-policing *has* worked well in higher education, sometimes using severe punitive measures on its non-conforming member institutions.

7. Finally, we view the above as an activity which will complement the secondary marketing effort of Sallie Mae. SLMA could undoubedly handle a large portion of the $3–$5 billion per year of originated loans, but the significant remaining portion would reach the secondary market investors through the "Student-Loan-Backed Security" program. The two would complement each other.

Thanks again for the opportunity. We stand ready to provide any additional information you find desirable.

Sincerely,

LUCIUS P. GREGG, Jr.

Enclosure.

A DISCUSSION OF THE GUARANTEED STUDENT LOAN PROGRAM (1974–79)

DISCUSSION SUMMARY

The major objective of GSLP should be that no student be denied access to postsecondary education because of financial need.

As costs of obtaining a higher education increase over time and students are expected to finance a larger share of the costs through self-help, the role of loan financing in meeting an expanded self-help responsibility is going to increase.

Today, GSLP (at $1 billion per year) is far from meeting student needs. *To be reasonably effective in assisting needy students*, 1974–75 lending should be over $3 billion—and capable of $5 billion in 1979.

Based on these needs, who then should originate these loans? The interest of banks will continue given a fair rate of return. However, the demand for $3 to $5 billion per year in loans to between three and four million student borrowers is comparable to and possibly exceeds the national annual growth of personal loans by banks to all customers.

If properly regulated, schools (particularly colleges and universities) have shown the capability, the interest, and the need to assure students that needed loans will be available. To be equitable, wide-scale participation of schools as lenders will be necessary and can be reasonably achieved with the proper support of the financial community.

Colleges and universities essentially require three things to be effective GSLP lenders: (1) sufficient private capital to make the loans; (2) assistance in selling their student loans once made; and (3) cost-efficient loan servicing. Selling and servicing loans are traditional roles for banks and other financial institutions—well established in the home mortgage field.

The critical question is whether all the approved college lenders (up to 2500) can depend on the availability of adequate private capital to the extent needed. In turn, this availability depends essentially on whether banks can be assured of getting their money back in a reasonable time with a fair return. For 95% of the colleges, it boils down to the assurance of a secondary market to buy loans made by each school lender.

This assurance for the school lender is proposed as a new form of guarantee called a "student-loan-backed security". It is modeled after the presently attractive and time-tested government assistance role in financing FHA mortgages to help stabilize the availability of these low-interest government-guaranteed mortgages through the mortgage-backed-security.

The importance of this proposal to college and university lenders is that this new form of guarantee is a proven means of assuring schools at the time of origination that their loans will be sold. Indeed it is standard practice for the purchase commitment to be available 6–12 months in advance of making the loans. Public colleges as well as the vast number of private institutions (many of which are only modestly endowed) can thereby lend to the full extent authorized.

This new form of guarantee will facilitate the growth in secondary market opportunities to complement Sallie Mae's efforts. Both are needed if GSLP is to provide a reasonable access level of $3 to $5 billion in new loans per year.

In addition, this new guarantee will also attract large amounts of private investment capital from security-minded long-term institutional investors who do not normally invest directly in student loans. Further, these new sources of funds are less vulnerable to cycles of money supply and historically have found student loan interest rates attractive when compared with alternate opportunities. The student-loan-backed security proposed could be funded without the need for annual Congressional appropriation, and would offer the needed simplicity and assurance required by the large investor.

Finally, if school lenders can help assure students access to loans, what procedures are needed to prevent abuse and to make certain that schools use uniform standards in determining loan awards. This discussion suggests that industry-wide self policing be used, whereby regional visiting committees of fellow financial aid officers of an existing national organization will periodically audit the practices of member institutions. Experience shows that in higher education, for example, self-policing has been quite effective in monitoring a degree of uniformity in their educational practices as in accreditation, etc.

I. WHAT ARE GSLP OBJECTIVES?

(*Access*)

A. No qualified student should be barred from education beyond high school, due to lack of money. GSLP, together with all presently available resources, should allow any student to pay much of his or her own way, if necessary, at any college university or other postsecondary institution to which he or she could gain admission.

(*Complementary Support*)

B. GSLP should provide flexible back-up support to all other aid programs—federal, state and institutional—to make it possible for each student to come up with a package of support sufficient to meet his or her needs—and independent of the vagaries of the money market.

(*Genuine Choice*)

C. GSLP should provide students themselves with the resources that allow them to make the serious choices among those institutions which accepted them for admission. Choice is closely related to access. Promise of access must be made real by assurances of reasonable choice. This access to postsecondary education must not be denied on the basis of financial status.

II. HOW LARGE SHOULD GSLP BE NOW? (1974)

A. While GSLP may be viewed as a means of support for all students, *it is essential for those from low-to-moderate family incomes.* What then should be considered as the minimally acceptable lending level if GSLP is to assure access—with choices for all students enrolled in postsecondary education?

PRESENT NEED FOR INSURED LOANS [1]

	Parental income (thousands)			
	0 to $7.5	$7.5 to $15	Over $15	Totals
U.S. population (thousands) [2]	8,000	8,000	4,000	20,000
Full-time enrollment (thousands):				
Collegiate [3]	1,210	2,088	1,888	5,186
Noncollegiate [3]	487	748	388	1,623
Total	1,697	2,836	2,276	6,809
Average education cost	$2,850	$2,850	$2,850	
Reasonable average loan [4]	$800	$500	$250	
Annual loan requirements (billions)	$1.4	$1.2	$0.6	$3.2

[1] Estimates based on data from CSS, NCFPE, and ACE, current population survey, Cooperative Institute research program, (1,000,000 entering freshmen).

[2] U.S. Bureau of Census (October 1972).

[3] National Commission on Financing Postsecondary Education (NCFPE).

[4] Cost less other resources for all students (i.e., parents' contribution, BOG, institutional aid, State scholarship, other assests—see appendix).

II. HOW LARGE SHOULD GSLP BE NOW? (1974)

B. Of the 6.7 million full-time students in post-secondary eductaion, 1.7 million have a parental income of less than $7,500; and 2.5 million students are between $7,500 and $15,000.

Current estimates of students' costs and resources are based principally on CEED/CSS data, et al.

Based on financial need, it is not unreasonable to expect students to borrow the minimum amounts as follows:

. . . Of low income students, *90% will borrow $900 per year* (for an average of $800 per total population).

. . . In the mid-income range, *50% will borrow $1,000 per year* (for an average of $500 per total population).

. . . In the upper income range, *25% will borrow $1,000 per year* (for an average of $250 per total population).

While parents making $7,500 to $15,000 will contribute more, their students will qualify for less federal, state, and institutional aid to meet the higher cost of education they experience. Students from families over $15,000 can look only to parental income, unless a student loan is available to some, to meet even greater educational costs. It has been the intent of Congress and the Executive that GSLP stand as a mechanism to relieve the burden of escalating costs on some middle and upper-middle income families, as well as substantial support of lower income students.

C. If GSLP is to meet these needs, annual lending volume should approximate:

	Billion
Under $7,500 family income	$1.4
$7500–$15,000 family income	1.2
Over $15,000 family income	.6
Total	3.2

Therefore, if GSLP is to be reasonably accessible to large numbers of low-to-middle income families and provide assistance to a limited number of others, *full access lending volume should approach $3.2 billion per year now* in order to meet the original program objectives.

III. HOW LARGE SHOULD GSLP BE IN FIVE YEARS? (1979)

A. The cost of a college education has increased more than 35% since 1969 for an average annual rate of at least 6–7% per year. Estimates are that this increase will continue into 1979.

A proportionate increase in the minimum GSLP volume for reasonable access (with no enrollment increase) would project to $4.4 billion per year in new loans.

B. With only a 10% growth in full time enrollment, (per recent U.S.O.E. data estimates), the minimum GSLP volume required would be $4.8 billion. Therefore, in discussing what steps are needed for GSLP to meet its objectives, consideration should be given to providing a needed annual volume of new loans approximating $5 billion per year.

IV. WHO SHOULD MAKE GSLP LOANS?

A. Reasonable assurance of getting GSLP loans is directly related to whether equal educational opportunity will be available for low-to-moderate income students which represent 80% of the population, but only 63% of the collegiate enrollment.

Some 3 to 3.5 million students need GSLP each year, approaching $4 to $5 billion in 1979.

B. *Financial Institutions:*

At present, financial institutions lend in varying proportions to their capabilities. While over 90% of those lending have made fewer than 500 total loans to date, a number of these are smaller institutions which seek to serve local students to the extent of their lending capability. A few larger financial institutions have demonstrated a serious commitment through substantial lending.

Future participation by both large and smaller financial institutions will depend on efforts to achieve *a more responsive interest rate, a more clearly defined guarantee*, and the presence of attractive secondary market opportunities. The absence of such factors has contributed in part to the recent sharp decline in lending as only an estimated 800 thousand students got loans from all lenders in Fiscal Year 1974, compared to 1.3 million students served in 1972.

It is doubtful, however, that banks can be expected to lend $4 to $5 billion per year directly to students *since this amount is 3 times larger than the total growth in all new personal loans made by banks each year.**

Future growth of GSLP may well depend on its ability to tap the wholesale private capital market which includes: (1) the vast majority of loan capital; and (2) the major institutions with non-cyclical, long-term investment credit (i.e., pension funds, trusts, etc.) Together, these two wholesale private capital sources represent a major share of the nation's growth in money supply.

C. *Colleges and Universities as Lenders:*

School lenders can stand to complement bank lending in a substantial and desirable way if:

Standards . . . U.S.O.E. will establish the necessary policies and standards to assure due diligence in the making (disbursing) of loans to students;

Servicing . . . Schools will be encourage to utilize professional loan servicers which have demonstrated cost-efficient means of servicing with lower repayment delinquencies and defaults;

Many Authorized . . . Substantial numbers of schools will be authorized to make loans so that the availability of a FISL loan from one school will not be used as a financial inducement, relative to a non-lending school;

Funds From Banks . . . Schools can borrow from local or major banks enough wholesale loan capital each year to meet expected student needs for loans made by the school lender;

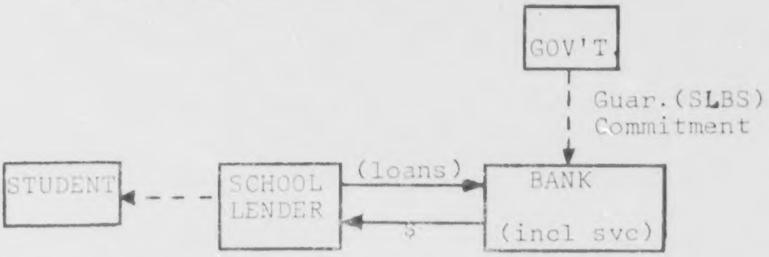
Assurance . . . Schools can be assured of selling their loans each year, shortly after they are made, to financial institutions which will then own and service these loans until final student payment is received.

It is not too difficult to structure the above requirements. In general, colleges have long demonstrated their ability to disburse loans (i.e., NDSL, etc.) in accordance with government policies. A growing number of professional servicing organizations are reducing delinquencies and defaults. U.S.O.E. could readily expand the number of school lenders, based on the instiutions staff capability. Banks would make the *full amount* available to *all* approved institutions, because they would have the assurance of being able to sell these student loans (via the student loan-backed security) to a secondary market investor—all at a fair rate of return. Finally, this new guarantee, if properly structured, would allow schools (with the help of banks) to have purchase commitments each year in advance of making their loans to students.

C. *Colleges and Universities as Lenders:*

As mentioned, to be effective and equitable, wide-scale participation of school lenders is important if students are to be assured of reasonable access to GSLP. The school lender can best provide this assurance if it can have adequate support of private capital and financial services by a bank or other capable financial institution.

(1) *Making GSLP Loans*



(*a*) The supporting bank will seek the new guarantee (SLBS) commitment from the government, and a purchase commitment from secondary market investor. ("Bank" refers also to other approved financial institutions.)

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* Federal Reserve Statistical Release for 1973 year, G. [illegible]—Personal loan growth, all commercial banks—$1.3 billion.

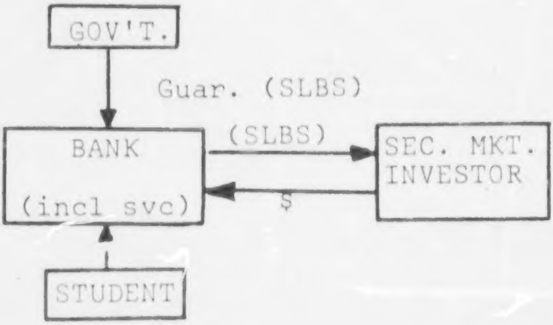
(*b*) School lender will make student loans and sell to bank on previously agreed SLBS terms.

(*c*) The bank will be the interim owner, but provide the long-term servicing arrangement.

(2) *Selling To Investors*

(*a*) The bank, holding student loans in trust, will have SLBS guarantee issued by the government and sold to investor, preferable at a fixed rate, per earlier commitments.

(*b*) Bank will bear long-term servicing responsibility for investor while holding loans in trust, or arrange servicing with a professional servicer as in the FHA mortgage area.



Conclusion

GSLP can provide the major form of student assistance for which it was intended. Present participation is far from adequate to assure students reasonable access. This discussion has focused on which students are to be served and how this can be accomplished. Included is the need to broaden the capacity to originate loans with school lenders backed by financial instructions.

During Fiscal Year 1972, the maximum year of actual GSLP lending to date, students access was as follows:

Parental income	Enrollment full time (thousand)	Number getting GSLP (thousand)	Percent getting GSLP
0 to $7,500	1, 700	470	28
$7,500 to $15,000	2, 500	580	23
Over $15,000	2, 500	250	10
Total	6, 700	1, 300	19

For all three income groups, the continued demand for GSLP loans far exceeds their availability.

Colleges must look increasingly to tuition as a major means of meeting educational costs. Their interest in continuing to serve middle and low income students requires that student assistance through financial aid will be increasingly important to students in paying this tuition. For the present and near-term future, student educational loans will represent a major fraction of the growth needed in financial aid. In summary, student loans will be an increasing part of financial aid; and financial aid will play an increasing role in allowing students to meet their tuition costs.

One final issue remains however. If the school lender can assure access—can it also be done equitably? In short, how can one prevent schools from abusing this lending authority. One criticism of the college as lender is that schools will, for example, (1) "buy students" and (2) unnecessarily increase students costs. As in many such problems like this, the issue is how to prevent the few who might abuse this program. As mentioned earlier, it is essential that the government set appropriate standards for determining loan eligibility and need. How can these standards be enforced? One compelling suggestion is to look to the "industry to police itself", namely, that an appropriate industry-wide association take responsibility for self-policing based on standards set by the government for this lending activity. This could apply to guidelines regarding financial aid packaging as well as the amount of the loan awards.

Presently, several groups of higher education institutions coordinate closely in order to maintain uniformity in practices regarding standards in financial aid to prevent abuse and competition. This is being done increasingly by groups of medical schools, the Ivy League institutions (plus M.I.T.), the midwestern Big Ten (plus the University of Chicago) through C.I.C., and the College Board.

This suggestion is based on the premise that self-policing has shown it has worked well in higher education. To some extent it has worked so well that it has been accused of too much control on member institutions. In summary, its affect on college and university policies has been felt in areas of accreditation, etc. As mentioned here, the assurance of equity and uniformity in loans could result from the use of regional visiting committees of fellow financial aid officers to periodically review the institutional practices at each campus—with recommendations regarding compliance or sanction being made to the Office of Education.

In conclusion, this paper suggests that the need for GSLP is great. The private capital needed can be tapped by the complementary use of the school as lender. All schools can participate to the extent of their administrative commitment, if the back-up support by banks can be assured by selling under attractive conditions to institutional investors. This "guarantee" (assurance) has been shown to be most desirable through such a proposed student-loan-backed security, and that "self-policing" represents a proven means of assuring equity to students.

APPENDIX

	Average cost per year	Enrollment by parental income			
		$0 to $7.5	$7.5 to $15	Over $15	Total
Collegiate institutions:					
Private: 4 yr	$3,960	203	393	519	1,115
2 yr	3,450	50	75	65	190
Public:					
4 yr	2,300	540	939	846	2,325
2 yr	2,000	417	681	458	1,556
Noncollegiate institution	3,600	487	748	388	1,623
Total students		1,697	2,836	2,276	6,809
Average cost (per above) [1]		2,850	2,850	2,850	2,850
Less average parents' contribution [2]		0	1,400	1,830	1,230
Less average BOG [3]		200	50	0	70
Less average institutional aid [4]		1,400	400	170	550
Less other resources [5]		450	500	600	530
Average loan need (unmet need)		800	500	250	470

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[1] Based on above enrollment distribution: Average cost per CSS.

[2] Per college board review (summer 1974), parental contribution ability (actual is less).

[3] Assumes 70 percent of $475,000,000 BOG to low-income; 30 percent to midincome.

[4] Per NCFPE, estimated 3,900,000,000 disbursed as grants, work, and institutional loan, (Federal, State, local, and private sources). Assumes 60 percent of 3,900,000,000 to low-income; 30 percent to midincome.

[5] Includes savings, veterans' benefits, tax refunds, social security, and summer employment.

Mr. O'Hara. Our next witnesses will be Mr. Harry Drolet, senior vice president of the Connecticut Bank & Trust Co., and Mr. Charles Looney, of San Francisco, who are both members of the American Bankers Association and are actively involved as lenders in the guaranteed loan program.

It is my understanding, however, that they are not speaking for ABA but are offering the committee their lessons from their own experience as lenders. I would suggest that we reserve our questions until both Mr. Drolet and Mr. Looney have concluded.

Gentlemen, we appreciate very much hearing from you.

STATEMENT OF HARRY J. DROLET, SENIOR VICE PRESIDENT, CONNECTICUT BANK & TRUST CO., AND CHARLES LOONEY, VICE PRESIDENT, WELLS FARGO BANK, REPRESENTING THE AMERICAN BANKERS ASSOCIATION

Mr. DROLET. Mr. Chairman, it is nice being here again. What I would like to do at this hearing is to read a very brief prepared statement and then offer the services of Mr. Looney and myself to respond to the banking industry's concerns and questions about rates and eligibility.

Mr. O'HARA. Please proceed.

Mr. DROLET. Mr. Chairman and members of the subcommittee, we are pleased to be here today to discuss the guaranteed student loan program with you. I am Harry J. Drolet, senior vice president of the Connecticut Bank & Trust Co., of Hartford. Appearing with me is Charles Looney, vice president of the Wells Fargo Bank NW, San Francisco, Calif. We are appearing on behalf of the American Bankers Association, and I hope when we are finished our colleagues will not disown us.

As the largest single lender of guaranteed student loans, commercial banks are as concerned about the future of this program as is the Congress. When we appeared before the subcommittee earlier this year, I think it was Valentine's Day, we said:

> Now would seem to be the appropriate time . . . to sit down and work out a program that is acceptable to all parties.

With this in mind, the American Bankers Association has established a student loan task force. The members of that task force are here today and would, I am sure, be happy to respond to any questions you might wish to address to them.

We are in the process of reviewing the various proposals that have been put forth to improve the existing student loan program, and, in fact, had scheduled a meeting for today to discuss some of these proposals. So, I believe it would be rather premature on our part to attempt to give you our thoughts on those proposals.

Nor are we at the stage of deliberation where we can make constructive recommendations for a new program.

In February of this year, we appeared before this subcommittee to testify on changes we felt were absolutely essential to carry the existing program through the 1974–75 school year. These changes were enacted with the passage of Public Law 93–269. No additional changes are practical under existing law, except a welcome upward adjustment in the special allowance.

Our real concern, at this time, must be to address ourselves to the task of mapping a blueprint for the future.

How should this program be restructured. We don't know. However, in our experience as lenders, we do recognize some inescapable conclusions which must be addressed:

It is unreasonable to expect private sectors of the economy to carry this program at a loss—be it the educational institution or the lender.

It is essential that any new program be made more attractive in order to encourage all lenders to share the necessary capital requirements of higher education.

Redtape must be reduced to eliminate unnecessary administrative costs which have proved to be an impediment to participation in the existing program.

All consideration of change will be made with a firm commitment not to disadvantage those students already dependent on this program for their education.

If you have any questions, we will be happy to respond.

[ABA task force list follows:]

ABA STUDENT LOAN TASK FORCE

Chairman: Harry J. Drolet, Senior Vice President, Connecticut Bank & Trust Company, One Constitution Plaza, Hartford, Connecticut 06115.

Phillip H. Battershall, Vice President, Old Kent Bank & Trust Company, Number One Vanderberg Center, Grand Rapids, Michigan 49502.

Amos T. Beason, Vice President, Morgan Guaranty Trust Company of N.Y., 23 Wall Street, New York, New York 10015.

Nathaniel R. Bowditch, Vice Chairman, First Pennsylvania Corporation, Sixteenth and Chestnut Streets, Philadelphia, Pennsylvania 19102.

Kenneth N. Erickson, Assistant Vice President, First National Bank of Minneapolis, 120 South Sixth Street, Minneapolis, Minnesota 55402.

Richard E. Kipper, President, Academic Financial Service Association—Data Corporation, 12911 Cerise Avenue, Hawthorne, California 90250.

Rodney A. Little, Senior Vice President, Deposit Guaranty National Bank, P.O. Box 1200, Jackson, Mississippi 30205.

Charles Looney, Vice President, Wells Fargo Bank, N.A., 464 California Street, San Francisco, California 94104.

Bryant E. Wackman, President, Brooklyn State Bank, P.O. Box 128, Brooklyn, Wisconsin 53521.

John D. Wickert, Senior Executive Vice President, Dauphin Deposit Trust Company, P.O. Box 2961, Harrisburg, Pennsylvania 17105.

Mr. O'HARA. Thank you very much, Mr. Drolet.

Mr. Drolet, you heard Mr. Gregg's suggestion that the incentive to lenders, special incentive, be tied to some existing security so that lenders will know just what they are going to be realizing on these loans, total, in relation to some other well-known programs.

Mr. DROLET. We would wholeheartedly endorse that concept. What is lacking now, Mr. Chairman, is a predictability, definiteness and time in less in the special allowance to which Mr. Gregg referred.

Mr. O'HARA. Another way of going about that is to tie the incentive interest to the average yield of a certain class of loans, of commercial banks during the preceding whatever period.

Do you have any preferences? If we are going to tie it to something, what sort of thing do you think we ought to tie it to? The Treasury bill?

Mr. DROLET. Anything would be an improvement. I suggest that perhaps the industry might have been satisfied itself in following the prime rate in the last few weeks. One of the distressing things was the delay in the announcement of the special allowance the last time by the Commissioner and reduction from 2½ to 2¼.

I was amazed at Mr. Gregg's figures about the fall of the participants in the program. I have no way of knowing whether that is a good index or not. My suggestion is that the uncertainties of this type of return would tempt a banker to put his money to more productive use.

Mr. O'HARA. Yes; I should think so. When you talk about reducing redtape, give me a notion of some of the things you are talking about.

Mr. DROLET. Yes; I will be glad to try. The application process, we feel as lenders, is very cumbersome. There is a whole procedure for approvals. There are interviews at the financial aid officer's desk, at the banker's desk. There are submissions to OE's regional office.

There is an inordinate amount of delay and turnabout time. There is the disbursement procedure required to get the money in the hands of the students before the disbursing office says he is tardy in payment of his tuition.

The whole collection and servicing procedure requires many documents to be prepared. Many of us, I think, perhaps are pursuing collection in ways not required only because we are not certain about the requirements of the "due diligence" requirement. I think if that were spelled out more specifically we perhaps could be doing that type of collection activity in a more efficient way. The submission of claims at the very end and the documentation required is very, very cumbersome.

Mr. O'Hara. Mr. Looney, do you have anything to add to that?

Mr. Looney. I am speaking from experience in working with the direct Federal program as against the State program. The time element is very cumbersome in both initial application for loans; with considerable pressure and complaints from the students and from the schools as to what has happened, how long are we going to get the loan? This is a constant source of problem.

Then subsequently the delays in loan repayment is time consuming and costly in that these usually go well beyond the period when interest is allowable, 120 days for default, then 100 to 180 to collect, thus there is no interest payable for this period.

Mr. O'Hara. Do any of you have any reactions to the kind of program that Mr. Gregg was describing in which the educational institution becomes the lender and then commercial banks and financial organizations, in effect, lend to the colleges or universities or schools.

Mr. Drolet. I have an initial reaction. It might well lead to an additional cost to the student. I say that only because of Mr. Gregg's portrayal of the mechanics of the program where I think he indicated that the maximum rate that the wholesale level would charge could not exceed, in fact, the rate plus a special allowance on the rate per se.

In the commercial loan situation, that has to cover the cost of money and all the servicing, the default in the collections, and everything else.

If that money flows to the wholesale provider to the fund then, in fact, the college is going to have to assume the additional cost of servicing and collection and default. It cannot help, at least at first blush, to reflect eventually in a higher cost to the student in the form of higher tuition, administrative fees, et cetera.

Mr. O'Hara. Spread throughout the student body?

Mr. Drolet. Yes.

Mr. O'Hara. Or in the case of a State institution to the taxpayer.

Mr. Drolet. I find some intrigue in the discussion of guaranteeing the wholesale notes themselves. There is not a banker in the world that would not be tempted by that arrangement. I think that is the best of both worlds.

Mr. O'Hara. It is indeed. By making it a more attractive loan that might also permit the commercial banker to give a more favorable rate to the educational institution if he had a guarantee.

Mr. Drolet. The educational institution in all likelihood today, if it were borrowing on any other basis, would be paying prime rate today plus something. I am suggesting under Mr. Gregg's proposal it is something less than that.

Mr. O'Hara. When we get to rewriting this law we would like to have some specific recommendations from your task force tied, indeed, to the provisions of the law and the provisions of the regulations.

For instance, you say that there is entirely too much traffic and delay in terms of interviewing, applying, approving, et cetera. We would like some specific suggestion from you as to what you think an appropriate abbreviation of these routines might be that would still protect the Government and protect the lender, but at the same time, cut down on the work.

Mr. Drolet. We hope very much to communicate to the committee and its staff the substance of our conclusions when we get to that point in time. The hearing is a little bit untimely. But we have met on several occasions. We are considering in depth a series of proposals. I think we have attached to our brief statement the list of membership of that committee.

I might indicate that, in fact, there are lenders represented both in the Federal and in the State subsidy programs. There are service bureaus represented and there are, in fact, members of the ABA staff. There are public relations people and there are investment people and we hope to get the best of the thoughts of our entire industry reflected in what we finally bring to the committee.

Mr. O'Hara. Mr. Lehman, do you have any questions?

Mr. Lehman. No.

Mr. Drolet. I have a comment for Mr. Lehman. When we were here last, he suggested the 10-percent delinquency rate was not the world's worst thing. You recalled somebody having been fired for having reduced the rate to 3 percent.

I went back after you said that and I checked. We run a service bureau. I checked with several State agencies. In fact, the prevailing rate seems to be in the area of 10 percent. My suggestion as a consequence of your remarks is that the delinquency is a relative expense.

It may be because of the nature of these instruments and the way in which they are originated and the debt servicing burden that falls to the students when they graduate and attempt to repay the loans and the fact that they are 10 to 15 years in duration, that, in fact, perhaps a 10-percent ratio is a fact of life that we as lenders and the agencies that guarantee them must come to live with but it is a compensable type of thing and we must look for reflection in the rate that is submitted.

Mr. Lehman. It is a form of subsidy. Thank you for remembering my remarks better than I do. I might interject one thing. This committee is going to be having hearings in Dade County in the middle of June. If there is anything that you suggest that we should talk about in these hearings rather than just a general overview, I would appreciate any area that we could perhaps put in the record during those hearings or any questions I should ask the witnesses at that time.

Mr. Drolet. If you are going to be holding them in Dade County, we would like to be able to submit for your consideration perhaps representatives of the commercial banking fraternity in that area who in fact could speak for the lenders.

Mr. Lehman. Great. I will take your card and follow up on it.

Mr. O'Hara. Thank you very much, gentlemen. We will look forward to working with you as we get into the rewriting of this program.

Mr. Drolet. Thank you, Mr. Chairman.

Mr. O'Hara. Our last two witnesses today are Mr. Rodney Harrison, director, student financial aid, the Ohio State University, and Mr. Richard L. Tombaugh, who is the executive secretary of the National Association of Student Financial Aid Administrators. I would suggest that we hear from both Mr. Harrison and Mr. Tombaugh before we get into questioning. We would very much like to hear from you.

STATEMENT OF RODNEY J. HARRISON, DIRECTOR, STUDENT FINANCIAL AID, OHIO STATE UNIVERSTY

Mr. R. Harrison. Thank you, Mr. Chairman and Mr. Lehman. Rather than read my written testimony, I would simply like to call your attention to some of the salient features which I think are important at least as far as our vantage point as an institutional aid officer.

Mr. O'Hara. Without objection, to begin with, your statement will be printed in full at this point in the record.

Mr. R. Harrison. Thank you, sir.

[The statement referred to follows:]

Statement by Mr. Rodney J. Harrison

Mr. Chairman, members of the committee, my name is Rodney J. Harrison, Director of Student Financial Aids at The Ohio State University, Columbus, Ohio.

I am extremely appreciative of the privilege to appear before you to speak on behalf of the National Direct Student Loan Program. I believe this program is essential and in spite of the potential growth of the federally guaranteed bank loan program, the National Direct Student Loan Program should be continued and expanded.

In many instances a loan from this program will be the first long-term financial commitment a student will make. Properly administered this program can produce an excellent early education in long-term financing and fiscal responsibility. The program enables students to receive self-help by developing a financial commitment which is in their own best interests based on the availability of student employment and other financial resources. These loans make it possible for students who have ambition and confidence in their own future success, but whose own resources and those of their parents make it impossible to have the appropriate financial credit, to borrow money unavailable to them through private lenders.

The impact of this program on The Ohio State University and its students can be told graphically by the fact that through June 30, 1973, 18,297 individual students have borrowed $16,156,923 since the program's inception. A further delineation of the type of students who have borrowed from Ohio State University is shown on Appendix A which provides data concerning the distribution of the 3,999 borrowers of the 1972–73 year. The data shows their race and ethnic group, sex, and family income.

STRENGTHS

The program has a great many virtues. Those listed below simply capsulize the major advantages of the program as currently legislated.

1. It is the major loan fund available to students with the basic criteria of financial need as the determining factor of eligibility.

2. Because it is administered by the institutions where students are enrolled, it provides the aid officer with a degree of flexibility necessary to solve students ever changing needs resulting from unexpected or unanticipated financial problems.

3. As it is an institutionally based program and as it is forward funded, it provides financial aid officers the opportunity to award these loans in conjunc-

tion with other federally and institutionally based resources. This packaging arrangement offers great convenience to students and parents in enabling them to plan how to meet their educational costs.

4. The National Direct Student Loan Program is one of the few federal programs currently available to the average graduate student.

5. The program has institutional incentives for efficient administration because the institution has ten percent of its money involved and because effective collection experience will provide more money to aid currently enrolled students.

6. The program provides a three percent administrative allowance which has been helpful in meeting the costs involved in effective administration.

WEAKNESSES

1. The cancellation provisions weaken the program immeasurably through the erosion of capital and the confusion caused by borrowers in the repayment period. Many financial aid officers sincerely believe that cancellation provisions do not increase the number of teachers in schools or serve as a proper motivating device for encouraging students' career choices.

2. In recent years there has been a constant threat concerning the reduction or elimination of this program. This results in a great deal of institutional and student insecurity.

3. Recent amendments to the program have opened these loans to students in proprietary schools. The reduction in federal support of graduate fellowships has increased the demand and need for these loans to graduate students and institutional costs continue to mirror the problems of inflation. None of these problems, however, have been reflected through any recent increase in funding levels.

4. Institutions continue to face collection and default problems. In most cases these are not as high as those reported for the federally insured loan program but do raise some genuine concerns on the part of institutions and financial aid officers.

RECOMMENDATIONS

1. The most obvious recommendation is that the program be continued. As can be seen by the earlier comments, this program plays a vital role in the financial aid scene and its elimination would deny large numbers of needy students the opportunity to invest in their own future through long-term loans.

2. Unless adequate research can demonstrate the value of the cancellation provisions, we urge that these provisions be deleted from the program.

3. The possibility of adequately estimating students needs for the three campus based programs eight months in advance with the constantly changing state and federal aid programs is slim at best. We therefore, believe that a transfer provision which would allow transfer of ten percent of the funds between any of the three campus based programs would enable the aid officers to more adequately use available resources in their most appropriate way.

4. Even though the guarantee bank loan program has, and will, provide a substantial support to large numbers of students, we believe increased funding of the National Direct Student Loan Program imperative so the students for whom it was intended will have adequate funds available and so multiple borrowing will not be necessary.

5. Efforts should be made by the appropriate governmental authorities to make an in-depth study of the collection problems currently being faced under this program. The study should determine the best methods of effective collection and ways in which the government may be of assistance to institutions through borrower location assistance, and other such devices as may be determined helpful through results of the study.

Thank you.

Mr. R. HARRISON. First of all, the major reason for my being here is to urge a continuation and expansion of the national direct student loan program. I do that for a number of reasons. I think the major reason can be shown on appendix A. I would simply like to call your attention to the statistics of our experience in the national direct student loan program at Ohio State University during 1972-73.

APPENDIX A

FISCAL 1973 NATIONAL DIRECT STUDENT LOAN PROGRAM, OHIO STATE UNIVERSITY

Race	Students	Amount
DISTRIBUTION BY RACIAL/ETHNIC GROUPS		
Negro/black	1,007	$664,623
American Indian	7	4,916
Oriental	20	19,046
Spanish-surnamed	26	19,267
White	2,939	2,096,858
Total	3,999	2,804,710
DISTRIBUTION BY SEX		
Men		2,151
Women		1,848
Total		3,999

DISTRIBUTION BY FAMILY INCOME: UNDERGRADUATES AND GRADUATES

	Undergraduate dependent								
	0 to $2,999	$3,000 to $5,999	$6,000 to $7,499	$7,500 to $8,999	$9,000 to $11,999	independent $12,000	Undergraduate	Graduate	Total
Borrowers	265	500	311	401	727	564	1,101	130	3,999
Amount loaned	$168,132	$320,404	$190,816	$233,914	$437,181	$333,282	$993,255	$127,726	$2,804,710

Mr. R. HARRISON. I point out in particular of the 3,999 borrowers, 1,007 of those were black. In other words, over 25 percent of the students who borrowed under that program at our institution were minority students. The distribution by men and women is relatively equal. Even more important is the family income represented, with 765 borrowers from family incomes under $6,000, another 712 students with family incomes from $6,000 to $9,000.

So, we feel, No. 1, the program is doing the job it was intended to do. Now, in addition to that, during the lifetime of the program at Ohio State University, we made loans to over 18,000 students, loaned over $16 million. One of the major strengths, in addition to the types of students being served with the revision of the guaranteed loan program, the national direct student loan program now becomes the major fund available to students with need as the major eligibility criteria.

Second, it is administered by the aid officer at the institution which provides a degree of flexibility necessary to serve students' ever-changing needs. Third, as it is institutionally based and as it is forward funding it provides the aid officer the opportunity to make a decision before the student enrolls and provides him an aid package which includes this loan along with other institutional and Federal resources.

It is one of the few Federal programs currently available to the average graduate student. The program has institutional incentives for effective administration because we have our money involved and we know full well if we don't do a good job on collection there is less money available to serve currently enrolled students.

It provides a 3-percent administrative allowance which does assist institutions in meeting the cost to administer the program. It does have a few weaknesses, however, and in your working through the provisions we would recommend that you take a look at these.

First of all, we are quite concerned about the cancellation provisions. We feel that it weakens the program through erosion of capital and certainly adds to the confusion of borrowers in the repayment period. We feel that the delinquency figures as reported are not really true because there are many students, former students, out there who may be teaching but who have not sent in the proper forms, et cetera.

In recent years there has been a constant threat that this program be reduced or eliminated. This is of concern to all of us because it certainly doesn't give any stability to the institution or students who wish to borrow under the program. Recent amendments to the program have increased the availability to students in proprietary schools. We had greater demands by graduate students as the result of decline in graduate fellowships and, of course, we are all being faced with the problems of inflation.

Unfortunately, there has been no increase in the funding level to compensate for these problems.

Fourth, we are facing collection and default problems. We feel that these are serious and we will have a recommendation to speak to that particular issue.

What are my recommendations? There are five in number. One, that the program be continued. We feel it is playing a vital role not now being played by other programs either in existence or contemplated.

Two, unless there can be adequate research to demonstrate the value of cancellation provisions, we urge that they all be deleted from the program.

Three, the possibility of estimating student needs in the three campus based programs, roughly 8 months before the fact, which is roughly our time schedule, makes difficult if not impossible administrative problems at the institution.

We would therefore urge that there be a 10-percent transfer provision among all three programs. To give you just one minor example, all of us had tried to estimate our needs in the college work-study program. Now, you see we are faced with some new guidelines on minimum wage. What we are saying is to try to meet these unanticipated changes, more allowance for transfer between and among the programs would be helpful.

Four, even though the guaranteed bank loan program has and will provide a substantial support to large numbers of students, we believe increased funding of the national direct student loan program imperative so it will eliminate multiple borrowing. This is something that concerns us greatly.

Students with legitimate loan needs not being able to get enough money from any one source. As a result, this is especially true, for example, in the health profession areas and in some of the other areas where we are seeing students borrowing all they can from the institution, going to the bank, borrowing all they can from a bank and going to a third institution. We feel somehow we need adequate allowances in some of these programs so that students don't have to borrow from a number of institutions.

Five, we recommend that the appropriate governmental authorities make some in-depth study of complex problems currently being faced under this program and that that study should determine the best methods for effective collection and ways in which the Government might be of assistance through, for example, borrower location and other such devices.

In effect, what I am saying by and large is that we feel that there is a vital place for the national direct student loan primarily because it is administered at the institution by financial aid officers where students are looking for support and need support.

Thank you very much.

Mr. O'HARA. Thank you very much, Mr. Harrison.

Mr. Tombaugh.

STATEMENT OF RICHARD L. TOMBAUGH, EXECUTIVE SECRETARY, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. TOMBAUGH. I will apologize ahead of time for my husky voice. It disappeared between yesterday morning's hearing and this morning.

I am Richard L. Tombaugh, executive secretary of the National Association of Student Financial Aid Administrators. I am accompanied by Mr. Herm Davis, director of financial aid at Montgomery College in Rockville, Md., and president of the Delaware-District of Columbia-Maryland Association of Student Financial Aid Administrators. We are pleased to represent the views of the financial aid community before the subcommittee today.

The testimony you received from the Office of Education yesterday provides a comprehensive historical and operational review of the student loan programs to be discussed today. I, and perhaps you, thank them for making that task unnecessary this morning.

Allow me to make one general observation before providing a series of recommendations on the existing guaranteed/insured student loan and national direct student loan programs.

Ideally, there should be one Federal-State student loan program which could be utilized by an individual from the first year of postsecondary education through the completion of the Ph. D, or professional degree. Our current approach, with six federally sponsored student loan programs, is confusing, inefficient, and contrary to sound fiscal management on the part of the student borrower.

Unfortunately, these programs have been developed over the years for specialized purposes, each having its own constituents and supporters, they are administered by three different Federal agencies, authorized by three different congressional committees on each side of the Capitol, and funding requests are handled by different Appropriations Subcommittees.

While a consolidation of this magnitude appears to be a nearly impossible task, we commend the concept to this subcommittee for exploration. The advantages are so obvious as to need no documentation, for the Federal Government, for institutions of postsecondary education, and for students.

Several of the specific recommendations we shall make for the loan programs covered under title IV are designed to minimize the problems inherent in this current state of overlapping loan programs, assuming that no extensive consolidation can be accomplished at this time.

We would be happy to address ourselves to the consolidation proposal more completely if the subcommittee feels that we have been too pessimistic about the potential for such a proposition. In the meantime, we shall address our comments to recommendations for refinement of the current title IV loan programs.

If no other recommendation in this testimony is heard by the subcommittee, we want to be sure that the first one comes through loud and clear. It is essential that the national direct student loan program be continued if student access to educational loans is to be maintained.

Contrary to the administration's proposition that the guaranteed/insured student loan program is sufficient to handle current and future borrowing needs, we take strong exception to the feasibility of discontinuing Federal contributions to the NDSL program. There are many reasons for our contention, but I shall dwell on only some of the more important ones.

Despite the very real and significant contribution that has been made by the guaranteed/insured student loan program to the financing of postsecondary education, there is no indication that the private sector is either prepared or willing to absorb any additional demand that would result from discontinuing Federal support of NDSL.

Additionally, there are other implications to a reliance upon guaranteed insured student loans. Disadvantaged students would be adversely affected because they do not have account relationships frequently required by commercial lenders. Other special groups—married, community college, freshmen, part-time, older students, and so forth—are often not provided full consideration for insured loans.

Then there is the unpredictability of loan availability. Subject to fluctuations in the money market, guaranteed/insured loans are readily available one day, scarce the next day, and unavailable the following day. Such variations in availability are difficult enough for the middle class family seeking long-term financing; they are insurmountable hurdles for low-income students whose ability to enroll depends entirely upon being able to plan on a loan being available.

If we are to achieve any resemblance of open access, it is necessary to have loan funds available for institutions to commit to needy students, independent of the prime interest rate or other money conditions in the commercial sector.

As we make improvements in the guaranteed/insured student loan program to expand availability of these funds, and as NDSL funds begin to more nearly revolve, it may be possible and desirable to place more dependence upon the private sector. We believe the experience of the last several months demonstrates well that the appropriate time has not yet arrived.

Hoping that we have been convincing in our argument for continued authorization of NDSL funding, the following recommendations are aimed at making the current NDSL program more effective and workable.

1. Expand the authorization for funding to $600 million per year for the period of the extension. Table V, which was recently provided to the House Appropriations Committee, demonstrates the demand for NDSL funds, which has approached $600 million for each of the past 2 years.

The availability of the basic opportunity grant should stabilize this demand somewhat, but decline in other types of graduate support, new institutional participants and eligibility of halftime students are working in combination to offset the introduction of new grant support.

2. Eliminate the cancellation provisions, except for death and disability—which need to be reinstated into the law—it was accidently omitted in the 1972 amendments. Several million dollars has been lost to the fund since the inception of the program because of cancellation provisions.

There is no evidence that these provisions have affected vocational choice or location to any significant extent; in fact, research done for the Office of Education a few years ago suggests that cancellation has had little, if any, impact. A summary of that research is submitted for the record.

The military cancellation is and has been largely inoperative due to the requirement of service in areas of hostility. We hope that will continue to be the case.

Not only would the elimination of cancellation provisions enhance the fiscal state of the program, but it would greatly simplify the administrative requirements. We would urge you, however, to provide for "grandfathering" those continuing students who have previously borrowed NDSL funds with cancellation provisions.

The only thing more difficult to explain than cancellation is a split loan, a portion of which is subject to cancellation and a portion of which is not.

3. Change the State allotment formula to agree with that proposed by NASFAA for the college work-study program, one which would take into account the presence of low-income families and the number of high school graduates in the State, as well as the number of halftime (or more) postsecondary students enrolled in the State.

Such a formula recognizes the potential enrollment of needy students and allows States with lower participation rates in postsecondary education a partial opportunity to catch up.

4. Delete from the allocation process the restriction or threshold requirement for funding proprietary institutions (sec. 462(d)). As full partners in the eligibility for participation, this restriction would seem to be no longer necessary.

The same procedures used to test the reasonableness of other funding requests should be the only limiting factor facing the proprietary institutions.

5. Provide authority for institutions to purchase, at their option, existing notes for loans taken out by NDSL borrowers from other student loan programs. This would permit a borrower who has utilized more than one program to consolidate all educational indebtedness into one note and one repayment schedule if difficulties in making multiple payments were encountered.

While the institution would not be required to do so, it might be advantageous to do so in order to avoid default and loss of funds already invested in the borrower. Such a provision would offer some of the advantages of one national student loan program under present conditions.

Another approach would permit Sallie Mae to purchase NDSL notes as well as GSL notes, and consolidate obligations of common borrowers upon request.

6. Exempt NDSL from the provisions of truth-in-lending legislation. Compliance with this Federal requirement adds much unnecessary paperwork to the administration of the program. The borrower is sufficiently protected by the simple interest rate and other terms to make truth-in-lending requirements redundant.

7. Exempt principal and interest canceled by NDSL provisions from Federal taxation as income. Borrowers receiving cancellation are currently being assessed for back taxes on canceled amounts, contrary, we suspect, to the intent of Congress.

While we continue to recommend deletion of the cancellation provisions, we do not feel that those borrowers who legitimately qualified for such benefits should now be held accountable for those benefits retroactively or for future benefits already covered by provisions in effect at the time the promisory note is signed.

Congressman Ike Andrews has—or soon will—introduced a bill to exempt the retroactive aspect, but we feel that the exemption should be complete.

I am not sure this is something you can handle in this committee; it might have to go through Ways and Means. But at least you are aware of the problem.

8. Consider amending section 466 to provide for the retention of existing NDSL funds at the institution rather than the present provision for the eventual distribution of assets. Each time that the NDSL authorization is extended, the dates in section 466 are likewise extended.

This seems unnecessary if the Congress intends to provide a revolving fund. With the past and current administration proposals to discontinue new Federal contributions, clarification of the congressional intent would provide comfort to institutions who fear that cessation of funding will be followed by the recall of existing funds. Rodney Harrison spoke to that general uncertainty also.

9. Amend section 496 (pt. F—General Provisions) to include authority for the transfer of up to 10 percent of an institutional allotment of NDSL funds to CW-SP or SEOG, and vice versa. The same rationale exists for NDSL as for the current authority to transfer CW-SP and SEOG.

The applications for funding of these programs are prepared and submitted prior to knowledge of appropriation levels. Subsequent variations in funding levels among programs destroy the packaging logic utilized in preparing the original institutional application.

The availability of other forms of assistance also varies from year to year and month to month. Thus, the ability to transfer a limited amount of funds among the three campus-based programs would permit the aid administrator to adjust for such variations and utilize the total Federal allotment in the most effective manner.

10. Delete section 497 (pt. F—General Provisions) in view of the court ruling that such prohibitions are unconstitutional and the subsequent decision of the Commissioner of Education to direct institutions to disregard the provisions therein.

NASFAA has expressed concern in the past about the use of such techniques for attempting to curb disruptive activities, largely because of the more severe penalties thus imposed upon needy students than upon nonaided students. Fortunately, the disruptions of the late 1960's have expired, hopefully making such considerations unnecessary.

11. Clarify section 498 (pt. F—General Provisions) to make notarization of the required affidavit unnecessary. The Office of Education has made a legal interpretation that "affidavit" means a notarized statement. The notarization process adds much confusion for the student and institution alike, complicates the registration process in many institutions and generally makes administration of all Federal programs more difficult.

Yet the notarization has no legal value except that the signature was witnessed by a notary public. It does nothing to insure the authenticity of the signature, nor does it enhance the sincerity of the signer. I must admit that it psychologically may cause the student to consider his or her intended use of the funds, but the pause will be only momentary.

The notarization is simply not worth the hassle and sometimes money, that requiring it causes both institutions and students.

This concludes our recommendations for the national direct student loan program.

I would call your attention to the study of the NDSL program, to which I referred earlier, as it attempts to answer some of the questions posed by the subcommittee yesterday about the characteristics of the delinquent borrower.

The findings suggest that such factors as sex, race, income, and occupation after termination of studies, and amount of borrowing—up to a point—are less important in projecting delinquent repayments than is the borrower's perception of how well the institution administered the program for him.

There is just one further comment I would make in light of the testimony you heard yesterday on the delinquency rate in NDSL. Allowable deferments, and particularly cancellation provisions, make the identification of a truly delinquent loan very difficult.

Many apparently delinquent loans are later determined to be the result of late filing of deferment and cancellation requests, especially since cancellation requests cannot be filed prior to the end of the school year, and the fiscal year, upon which delinquency rates are based, follows almost immediately.

Another element that somewhat distorts the delinquency rate is the fact that once a payment is missed, the note remains "past due" until all prior payments are caught up, even though the borrower may have made a payment every month for the past year.

Borrowers who continue making payments, even on an irregular basis, are not the problem. The real difficulty rests in those borrowers who cannot be located or who, if located, refuse to pay. These statistics would provide a more meaningful indicator of the success of the program. Rodney Harrison also spoke to the need for some Government assistance in that vein.

GUARANTEED INSURED STUDENT LOAN PROGRAM

As indicated earlier in this testimony and in previous appearances before this subcommittee, the association recognizes the need for and heartily endorses the guaranteed/insured student loan program. It is not a question of NDSL *or* guaranteed/insured loans. Both are required, at optimum effectiveness and funding, to serve the credit needs of our students and their families.

Since the success of the guaranteed/insured loan program depends in large part upon the voluntary participation of the commercial lending community, it would perhaps be presumptuous of us as financial aid administrators to make recommendations in the arena of enhancing the attractiveness of the program to the lender.

We do, however, have some suggestions the subcommittee might want to consider in this vein:

1. Extend the Federal payment of interest to cover the period between the time a lender files a default claim and the time of payment on the claim. Some States already provide this benefit. It will not only eliminate one real drawback for the lender in terms of lost income during that period, but it might also motivate the faster processing of claims, reported to be an additional problem to lenders.

2. Retain the current 7-percent interest rate, but attach the amount of special allowance to some responsible indicator of the money market so that the lender can get a fair return on the investment. It seems important to us that the special allowance be predictable in advance rather than being set retroactively, sometimes far into the next quarter.

The psychological impact of reducing the special allowance for the prior quarter at the same time the prime interest rate reaches an all-time high is obvious and should somehow be avoided. The constant interest should be maintained to provide stability in the cost to the student borrower. The current 7 percent rate seems to be a reasonable expectation of the borrower.

3. Retain the in-school interest subsidy for those borrowers from families under $15,000 adjusted annual income requesting $2,000 or less, with eligibility beyond those points being dependent upon demonstrated need.

While we have had some problem philosophically with the provision of a subsidy to all families falling under this umbrella, and the resultant cost to the program that might be better directed to other student aid programs, we recognize the practical implications of limiting the subsidy through a needs test for all applicants, both in resultant processing hurdles and the unavailability of unsubsidized loans, at least under current circumstances.

We prefer at this time to leave this aspect of the program alone and give it a fair chance to work. The cost implications may have to be considered later.

4. Exclude the program from the provisions of truth-in-lending. The rationale is the same as for NDSL: the borrower is already adequately protected and the redtape is an unnecessary burden to the lender.

There are a series of recommendations we would like to advance to improve the program for the student:

1. Provide an overall ceiling on borrowing from all Federal student loan programs, rather than separate ceilings for each one. The amounts can be studied and debated, but for sake of example we suggest the following: (*a*) $2,500 per year, all Federal programs combined;

(*b*) $10,000—cumulative figure—for undergraduate study, all Federal programs combined; (*c*) $15,000 for undergraduate plus graduate study, all Federal programs combined; and (*d*) $20,000 for undergraduate plus professional studies, all Federal programs combined.

Lest it appear that we are suggesting an expansion of the use of student loans, we are not; this amounts to a limitation on borrowing possible currently. Potential borrowing from existing Federal programs with separate limitations is substantially greater than this proposal.

We are concerned that students may be overextending their ability to repay with the current opportunity to combine loan programs and we wish to see a further limitation enacted. Our proposal would continue the authority of the Commissioner to grant an exception under exceptional circumstances, but the need for such, with adequate support for grants, work and other aid, should be minimal.

2. Extend the payment period for graduate and professional school borrowers to 15 years when amounts exceed $10,000; retain the current minimum monthly payments for smaller loans. The reason is obvious; if larger amounts are borrowed, the monthly payments become overpowering in the 10-year schedule, enhancing the likelihood for default. Even with the increased earning power, the extension seems reasonable.

3. Provide authority for a lender to pay off other educational loans and consolidate all such borrowing into one note and repayment schedule. The rationale is the same as that provided for the NDSL. We feel that this would make it easier to meet repayment obligations and avoid default.

4. Provide specified authority for the lender, at his option, to utilize a graduated repayment plan. Not to be confused with an income contingency loan, about which we have grave reservations, the graduated payment which would permit a borrower's repayment obligation to begin at a lesser amount and continually increase as earnings increased.

Because this approach has some inherent problems, we are proposing that it be offered only as an option to the lender, to respond to special difficulties a borrower might be having with the standard repayment schedule, and only after delinquency seems to be the only other alternative.

We have a few recommendations for the general improvement of the program:

1. Remove the disincentives for the operation of State guaranteed agencies. The evidence seems clear, in terms of processing time, lender relations, institutional relations, and other considerations, that this program can be operated more efficiently at the State level than at the national level, at least under present circumstances.

Yet there is no good reason for a State to perform the guarantee function at this time, except a desire to provide better service to its residents. In many ways, primarily fiscal, the State is better off allowing the Federal Government to provide direct insurance, and thus processing.

We recommend that the subcommittee provide greater equity to the States serving the guarantee function, in order that we protect those agencies now operating and encourage others to be formed. I believe the National Council of Higher Education loan programs will have more specific proposals in this area at a later time.

2. Provide for the Federal payment of administrative cost for institutional processing of guaranteed-insured student loan applications. Although the demand upon the institution has been lessened by the recent changes in the criteria for the interest subsidy eligibility, there still remains a great deal of paperwork at the institution.

With operating budgets being reduced, schools are having an increasingly difficult time getting the necessary staff support to process loan applications on a timely basis. The out-of-budget expenses go beyond staff time to include supplies, equipment, travel to loan workshops, et cetera.

Campus budget officers would be much more receptive to these demands if a partial reimbursement of expenses were available. We suggest that an amount of $5 per loan insured or guaranteed on all loan applications processed, not just those approved, the paperwork needed to account for such payment would negate the purpose of doing so.

3. Provide authority for the State agency or USOE to contract with the original lender for special collection efforts beyond normal due diligence at the end of the required 120 days, but prior to submitting a default claim. We have several reasons for suggesting this option:

(*a*) The longer a past-due loan goes before special collection activity begins, the more difficult the collection task. When a loan is turned over to USOE, several weeks, potentially very crucial ones, go by before the paperwork permits contact with the borrower. Leaving the account with the original lender postpone that conversion period until it is less important to the collection effort.

(*b*) The original lender already has, in most cases, made contact with the borrower. USOE or the State agency may have to reinvent the wheel, so to speak, before the initial contact can be made.

(*c*) The original lender files a default claim because the special collection efforts are cost-prohibitive under the current margin provided. Federal payment of nonroutine collection costs under contract, however, might give sufficient incentive for the lender to pursue collection rather than file a claim. Federal payment of State agency collection costs might also provide additional incentive for them to recover claims on the Federal reinsurances.

(*d*) It is only conjecture, but we would suggest that such an approach would be less expensive to the Federal Government than the maintenance of an ever-increasing collection function of its own. While it would not avoid all claims, and some limitation to the lender's efforts would probably be desirable, it could appreciably reduce the number of claims being submitted by lenders.

4. The changes to the general provisions proposed earlier for NDSL would also apply to the guaranteed/insured loan program with respect to the affidavit and the disruption provisions.

This concludes our observations and recommendations on the loan programs authorized by title IV. We would be happy to respond to questions.

Thank you.

[Appendixes to the prepared statement follow:]

TABLE V.—NATIONAL DIRECT (DEFENSE) STUDENT LOANS

[In millions of dollars]

Fiscal year Academic year	1968 1967-68	1969 1968-69	1970 1969-70	1971 1970-71	1972 1971-72	1973 1972-73	1974 1973-74	1975 1974-75
Authorization	225.0	210.0	325.0	375.0	375.0	400.0	400.0	400.0
Institutional requests	243.1	269.7	318.0	331.1	389.4	534.0	682.8	732.2
Panel approved requests	230.2	246.7	273.4	283.4	337.1	454.1	576.9	557.5
Appropriations	190.0	190.0	188.6	236.5	[1] 309.6	286.0	286.0	286.0
Allocation	190.0	190.0	188.6	236.5	286.0	[2] 286.0	286.0	286.0

[1] $23,000,000 supplemental distributed in fiscal year 1973.
[2] Includes fiscal year 1972 supplemental of $23,000,000.

National Defense Borrowers Study Conducted for the U.S. Office of Education

(By Richard L. Tombaugh)

I. SUMMARY OF THE STUDY

This study was conducted by the Division of Student Financial Aid, U.S. Office of Education, during Fiscal Year 1970. The population studied consisted of those National Defense Student Loan borrowers who terminated their education through graduation, transfer, or withdrawal during FY 65. This particular group was selected because of their opportunity to borrow under the NDSL program for four consecutive years, yet be potentially out of school for five years at the time of the study.

The sample consisted of 25% of the terminal borrowers at 25% of the institutions participating in the NDSL program for the four years prior to and including FY 65. Analysis was limited to those who had borrowed as undergraduates, but a sub-study will be forthcoming or graduate borrowers as well.

The study had four basic goals or purposes:

A. To evaluate borrower attitudes toward borrowing for college.

B. To evaluate repayment performance and its relationship to several borrower characteristics thought to influence loan repayment.

C. To evaluate the teacher cancellation provisions and the manner in which the intent of these provisions is being realized.

D. To evaluate the importance of good institutional administration to borrower attitudes and timely repayment.

II. SUMMARY OF RESPONSE

Institutions in sample	342
Returns not usable	7
Not participating	23
Total participating institutions	312
Percent of participation	91.2
Questionnaires mailed	6,962
Not deliverable	120
Returned, not usable	281
Returned too late	38
Not returned	1,468
Total usable questionnaires	5,055
Percent usable of mailed	72.6
Percent usable of delivered	73.9
Percent not returned	21.0

III. PRELIMINARY CONCLUSIONS

1. 77.3% were highly favorable or favorable in their attitude about borrowing.

2. There was no loss of favor as the amount borrowed increased.

3. Less than 1% were unfavorable in their attitudes. Only when the amount borrowed exceeded $7000 (4 cases) did the percentage expressing disfavor exceed 1%.

1 . x

4. Those who borrowed only as freshmen were somewhat less favorable than those who borrowed more closely to their termination. The later in their undergraduate career the borrowing, the more favorable the attitudes. Probably reflects the dropout problem.

5. Favorable attitudes increase parallel to years of education completed. More than half the borrowers having unfavorable attitudes completed less than 4 years of higher education (28/43).

6. Those with high GPA's had more favorable attitudes, but the disfavor was not limited to those with low GPA's. Most of the variation was contained in ambivalence.

7. There is no significant difference in the attitudes toward borrowing of the males and females.

(M=78.1% favorable)
(F=76.6% favorable)

8. Blacks are somewhat less favorable than either whites or other races, but not significantly more unfavorable, the variation again being in neutral feelings.

(W=78% favorable)
(O=75% favorable)
(B=67% favorable)

9. Attitudes toward borrowing appear highly correlated to the borrower's perception of the quality of loan administration on the part of the instituion.

10. While favorable attitudes increase with average annual income, the change is probably not statistically significant. However, when occupation is considered, disfavor seems to center in clerical, sales, and blue collar jobs.

Those borrowers in the professions and teaching express the most satisfaction with their loan experience. Deferment also keeps students and those in the volunteer services happy about their loan.

11. As might be expected, those borrowers who have separated or divorced have less favorable attitudes about their loans than those who have remained single or who have married and remained so.

(S=80.2% favorable)
(M=76.9% favorable)
(D=72.2% favorable)

12. Those borrowers attending four year institutions are more favorable about the loans than those who borrowed at two year schools. There seems to be no difference between public and private school borrowers.

13. In repayment performance:
(*a*) men and women pay on schedule or prepay at almost identical rates
(*b*) men use much more deferment opportunity (21%/5.2%)
(*c*) women take more advantage of cancellation (41%/24.5%)
(*d*) men are slightly more prone to be delinquent (7.7%/6.3%)

14. In repayment performance:

(*a*) The percentage of those paying on schedule and prepaying decreases as the amount of the NDSL loan increases.

(*b*) use of deferments increases as the NDSL amount borrowed increases.

(*c*) use of cancellation remains fairly constant regardless of NDSL amount borrowed.

(*d*) the delinquency rate remains fairly constant (7.7, 6.6, 6.6, 6.5) until NDSL borrowing exceeds $3000 (13.3, 16.7).

15. When considering the total amount borrowed, the previous conclusions prevail, except that the delinquency rate jumps when the amount exceeds $3000.

16. In repayment performance:

(*a*) those borrowers who fail to finish four years pay on schedule as well as those who complete, but their delinquency rate is higher due to the limited opportunity for deferment and cancellation.

(*b*) those who have gone on beyond the master's level have been utilizing deferment and/or cancellation most of the five years since termination, and thus have a limited repayment record.

17. As attitudes concerning borrowing move from positive to negative, the percentage of those paying on schedule and prepaying *increases*.

18. Use of deferments does not vary significantly with differing attitudes toward borrowing.

19. There is a strong relationship between favorable attitudes and use of cancellation.

20. Delinquency rates increase as attitudes move from positive to negative.

21. There is very little difference in repayment performance when the GPA is

C or above. Those below a C average repay on time or prepay much more frequently, but they also have a higher delinquency rate. They use cancellation much less, presumably due to the teacher screening process.

22. White borrowers are somewhat more apt to prepay or pay on schedule than blacks (47.8%/36.5), and conversely less likely to be delinquent. However, it is likely to be closely related to the collection procedures of the institutions.

23. Borrowers repaying annually are more likely to pay on schedule and have a lower delinquency rate than those paying more frequently, but they also are less likely to prepay their loans.

24. The likelihood of paying on schedule and of being delinquent are closely related to the borrower's perception of administrative quality. However, the administrative quality does not seem to affect the use of deferments, cancellations or the use of prepayment.

25. As might be expected, there is a direct relationship between paying on schedule or prepaying and average annual income. However, the relationship is not nearly so strong with the delinquency rate because of the substantial use of deferment by the lower incomes (students, military, volunteer service).

All figures are
% of sample respondents
Some do not add
to 100% because of [illegible] or no responses

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202
NATIONAL DEFENSE STUDENT LOAN STUDY

BUDGET BUREAU NO. 51-[illegible]
APPROVAL EXPIRES [illegible]

1. HOW MUCH DID YOU BORROW UNDER THE NATIONAL DEFENSE STUDENT LOAN PROGRAM FOR YOUR UNDERGRADUATE EDUCATION?
87%
27 A ☐ $ 500 OR LESS
24 B ☐ $ 501 - $1,000
27 C ☐ $1,001 - $2,000
10 D ☐ $2,001 - $3,000
2 E ☐ $3,001 - $4,000
0 F ☐ $4,001 - $5,000

2. DID YOU BORROW UNDER NDSL FROM MORE THAN ONE INSTITUTION AS AN UNDERGRADUATE?
10 A ☐ YES
90 B ☐ NO

3. HOW MUCH, IF ANY, DID YOU BORROW IN LONG-TERM LOANS FROM ALL SOURCES OTHER THAN NDSL FOR YOUR UNDERGRADUATE EDUCATION?
65 A ☐ NONE
7 B ☐ $ 500 OR LESS
9 C ☐ $ 501 - $1,000
8 D ☐ $1,001 - $2,000
4 E ☐ $2,001 - $3,000
1 F ☐ $3,001 - $4,000
1 G ☐ $4,001 - $5,000
1 H ☐ $5,001 OR MORE

4. DURING WHICH YEAR OF UNDERGRADUATE SCHOOL DID YOU OBTAIN YOUR LAST (OR MOST RECENT) NDSL LOAN FOR YOUR UNDERGRADUATE EDUCATION?
11 A ☐ FRESHMAN
13 B ☐ SOPHOMORE
14 C ☐ JUNIOR
61 D ☐ SENIOR

5. HOW MANY YEARS OF UNDERGRADUATE SCHOOL HAVE YOU COMPLETED?
2 A ☐ LESS THAN 1
5 B ☐ 1 OR 1½
6 C ☐ 2 OR 2½
4 D ☐ 3 OR 3½
84 E ☐ 4 (INCLUDING 5-YEAR PROGRAMS)

6. WHAT WAS YOUR ENROLLMENT STATUS AS AN UNDERGRADUATE STUDENT?
85 A ☐ ENTIRELY FULL-TIME
12 B ☐ PRIMARILY FULL-TIME
2 C ☐ PRIMARILY PART-TIME
0 D ☐ ENTIRELY PART-TIME

7. DID YOU FIND IT NECESSARY TO INTERRUPT YOUR UNDERGRADUATE STUDIES PRIOR TO COMPLETION OF YOUR DEGREE? IF SO, WHAT RELEVANCE DID YOUR STUDENT LOAN INDEBTEDNESS HAVE IN THAT DECISION?
67 A ☐ NO INTERRUPTION WAS NECESSARY
13 B ☐ MY STUDIES WERE INTERRUPTED, BUT INDEBTEDNESS HAD LITTLE OR NOTHING TO DO WITH IT
8 C ☐ MY STUDIES WERE INTERRUPTED, BUT INDEBTEDNESS WAS ONLY ONE OF THE CONTRIBUTING FACTORS
4 D ☐ MY STUDIES WERE INTERRUPTED, AND INDEBTEDNESS WAS THE MAJOR REASON

8. WHAT WAS YOUR APPROXIMATE UNDERGRADUATE GRADE AVERAGE?
6 A ☐ A
50 B ☐ B OR B+
42 C ☐ C OR C+
2 D ☐ BELOW C

9. HAVE YOU PURSUED YOUR EDUCATION BEYOND THE UNDERGRADUATE LEVEL?
50 A ☐ NO
25 B ☐ PARTIAL MASTER'S DEGREE
13 C ☐ COMPLETED MASTER'S DEGREE
4 D ☐ PARTIAL DOCTORATE
1 E ☐ COMPLETED DOCTORATE
6 F ☐ OTHER PROFESSIONAL DEGREE (I.E., LLB, MD, ETC.)

10. WHAT INFLUENCE DID YOUR UNDERGRADUATE LOAN INDEBTEDNESS HAVE ON YOUR PURSUIT OF GRADUATE STUDIES?
43 A ☐ I HAVE NOT PURSUED GRADUATE STUDY, BUT THE LOAN INDEBTEDNESS HAD LITTLE OR NOTHING TO DO WITH IT
7 B ☐ I HAVE NOT PURSUED GRADUATE STUDY, BUT THE LOAN INDEBTEDNESS WAS ONLY ONE OF THE CONTRIBUTING FACTORS
1 C ☐ I HAVE NOT PURSUED GRADUATE STUDY, AND THE LOAN INDEBTEDNESS WAS THE MAJOR REASON
35 D ☐ I HAVE DONE GRADUATE STUDY WITHOUT ANY PARTICULAR REFERENCE TO MY UNDERGRADUATE INDEBTEDNESS
2 E ☐ I HAVE DONE GRADUATE STUDY, BUT THE LOAN INDEBTEDNESS CAUSED ME TO POSTPONE MY ENROLLMENT OR CARRY A LIGHTER COURSE LOAD
8 F ☐ I HAVE DONE GRADUATE STUDY, FINANCED THROUGH FURTHER LOANS
3 G ☐ I HAVE DONE GRADUATE STUDY WITHOUT FURTHER BORROWING, BUT ANTICIPATE THE NEED TO DO SO BEFORE COMPLETION

11. PLEASE IDENTIFY YOUR SEX
54 A ☐ MALE
46 B ☐ FEMALE

12. PLEASE IDENTIFY YOUR RACE
93 A ☐ WHITE
6 B ☐ BLACK
1 C ☐ OTHER (SPECIFY)

13. HAVE YOU RECEIVED DEFERMENT OF NDSL REPAYMENT AT ANY TIME FOR ANY OF THE FOLLOWING REASONS?
25 A ☐ ADDITIONAL EDUCATION
9 B ☐ MILITARY SERVICE
1 C ☐ PEACE CORPS OR VISTA
2 D ☐ FINANCIAL HARDSHIP
62 E ☐ NO DEFERMENT HAS BEEN RECEIVED

14. WHAT TYPE OF REPAYMENT PLAN ARE YOU NOW USING FOR YOUR NDSL DEBT?
47 A ☐ ANNUAL
4 B ☐ QUARTERLY
0 C ☐ BI-MONTHLY
5 D ☐ MONTHLY
32 E ☐ TEACHER CANCELLATION
10 F ☐ DEFERMENT

15. REPAYMENT PLANS MAY BE ADJUSTED BY MUTUAL AGREEMENT BETWEEN THE LENDER AND THE BORROWER. HAS YOUR PLAN BEEN CHANGED SINCE YOU TERMINATED YOUR UNDERGRADUATE EDUCATION?
91 A ☐ NO
6 B ☐ YES; AT MY REQUEST
2 C ☐ YES; AT INSTITUTION'S REQUEST

16. HOW IS (WAS) YOUR NDSL DEBT BEING REPAID?
35 A ☐ YOUR INCOME ONLY
6 B ☐ SPOUSE'S INCOME ONLY
13 C ☐ JOINT INCOME
3 D ☐ YOUR PARENTS OR SPOUSE'S PARENTS
37 E ☐ TEACHER CANCELLATION
4 F ☐ OTHER (SPECIFY)

PAGE 1

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17. DID YOU RECEIVE A FULL EXPLANATION OF THE TERMS AND CONDITIONS OF YOUR NATIONAL DEFENSE LOAN AT THE TIME THE MONEY WAS FIRST LOANED TO YOU?

80 A ☐ YES 15 B ☐ DON'T RECALL 5 C ☐ NO

18. WERE YOU PROVIDED WITH REPAYMENT INSTRUCTIONS PRIOR TO YOUR DEPARTURE FROM THE COLLEGE OR UNIVERSITY PROVIDING YOUR FIRST LOAN?

67 A ☐ YES 14 B ☐ DON'T RECALL 12 C ☐ NO

19. DID YOU RECEIVE A WRITTEN NOTICE OR BILLING OF THE AMOUNT AND DUE DATE FOR YOUR FIRST REPAYMENT INSTALLMENT?

21 A ☐ YES
11 B ☐ NO
7 C ☐ FIRST REPAYMENT NOT YET DUE

20. HAVE YOU RECEIVED SUBSEQUENT REGULAR NOTICES OR BILLINGS PRIOR TO THE TIME THAT INSTALLMENT REPAYMENTS WERE DUE?

67 A ☐ YES
18 B ☐ NO
15 C ☐ NOT APPLICABLE

21. WHAT IS THE CURRENT STATUS OF YOUR NATIONAL DEFENSE STUDENT LOAN?

6 A ☐ LOAN IS FULLY PAID OFF
4 B ☐ I AM PAYING AHEAD OF SCHEDULE
37 C ☐ I AM PAYING ON SCHEDULE
32 D ☐ I AM USING TEACHER CANCELLATION
13 E ☐ I AM USING DEFERMENT
7 F ☐ I AM BEHIND ON PAYMENT(S)

22. IF YOU ARE BEHIND ON YOUR SCHEDULED REPAYMENT, HAS YOUR LENDING INSTITUTION (OR ITS COLLECTION AGENT) CONTACTED YOU?

A ☐ NEVER
B ☐ ONCE ONLY
C ☐ TWO OR THREE TIMES
D ☐ SEVERAL TIMES

23. HAVE YOU TAUGHT IN AN EDUCATIONAL INSTITUTION (ELEMENTARY, SECONDARY, OR POST-SECONDARY) ON A FULL-TIME BASIS DURING ANY YEAR SINCE TERMINATING YOUR UNDERGRADUATE STUDIES?

46 A ☐ YES
52 B ☐ NO

IF NO HAS BEEN CHECKED IN ITEM 23 PROCEED TO QUESTION 30

24. HAVE YOU OBTAINED PARTIAL CANCELLATION OF LOAN PRINCIPAL AND INTEREST FOR EACH YEAR OF TEACHING?

23 A ☐ YES
2 B ☐ NO; I WAS NOT AWARE OF THIS PROVISION
7 C ☐ NO; I WAS AWARE OF THIS PROVISION BUT HAVE NOT REQUESTED THE CANCELLATION
2 D ☐ NO; MY REQUEST FOR CANCELLATION HAS BEEN DENIED

25. WERE YOU PLANNING TO TEACH PRIOR TO THE TIME YOU RECEIVED YOUR FIRST NATIONAL DEFENSE STUDENT LOAN?

81 A ☐ YES
15 B ☐ NO

26. WERE YOU AWARE OF THE TEACHING CANCELLATION PROVISION AT THE TIME YOU BORROWED?

87 A ☐ YES
10 B ☐ NO

27. DID THE AVAILABILITY OF A NATIONAL DEFENSE LOAN INFLUENCE YOUR DECISION TO ENTER THE TEACHING PROFESSION?

6 A ☐ DEFINITELY
10 B ☐ POSSIBLY
81 C ☐ NOT AT ALL

28. DID THE CANCELLATION PROVISION GIVE YOU ADDITIONAL INCENTIVE TO ENTER THE TEACHING PROFESSION?

13 A ☐ DEFINITELY
24 B ☐ POSSIBLY
59 C ☐ NOT AT ALL

29. HAS THE CANCELLATION PROVISION INFLUENCED YOU TO REMAIN IN TEACHING LONGER THAN YOU WOULD HAVE OTHERWISE?

5 A ☐ DEFINITELY
12 B ☐ POSSIBLY
73 C ☐ NOT AT ALL

30. IN ORDER THAT WE MIGHT DETERMINE THE CORRELATION BETWEEN POST-HIGHER EDUCATION INCOME AND REPAYMENT OF STUDENT LOANS, PLEASE INDICATE THE APPROXIMATE ANNUAL GROSS INCOME (BEFORE TAXES AND DEDUCTIONS; INCLUDE HELP FROM PARENTS, INHERITANCE, ETC.)

YEAR	YOUR INCOME	SPOUSE'S INCOME, IF ANY
1966		
1967		
1968		

31. INDICATE THE MOST APPROPRIATE JOB FIELD OR STATUS WHICH HAS OCCUPIED THE LARGEST PROPORTION OF YOUR TIME SINCE TERMINATING YOUR UNDERGRADUATE EDUCATION IN 1964-65.

5 A ☐ ARCHITECTURE AND ENGINEERING
2 B ☐ MATHEMATICS AND PHYSICAL SCIENCES
0 C ☐ LIFE SCIENCES
2 D ☐ SOCIAL SCIENCES
4 E ☐ MEDICINE AND HEALTH
36 F ☐ EDUCATION (NONSTUDENT)
1 G ☐ LAW
1 H ☐ RELIGION AND THEOLOGY
2 I ☐ WRITTEN AND VISUAL ARTS, ENTERTAINMENT-RECREATION
6 J ☐ ADMINISTRATIVE SPECIALTIES AND MANAGERIAL WORK
3 K ☐ OTHER PROFESSIONAL ACTIVITIES
3 L ☐ CLERICAL WORK
2 M ☐ SALES
2 N ☐ PERSONAL AND PUBLIC SERVICES
0 O ☐ FARMING, FORESTRY, ETC.
1 P ☐ PROCESSING, MACHINE TRADES, BENCH AND STRUCTURAL WORK (SUBPROFESSIONAL LEVEL)
7 Q ☐ HOMEMAKER
7 R ☐ STUDENT
8 S ☐ MILITARY SERVICE
0 T ☐ VOLUNTEER SERVICE
3 U ☐ OTHER (SPECIFY)

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32. DID YOUR STUDENT LOAN INDEBTEDNESS HAVE ANY INFLUENCE UPON YOUR CHOICE OF FIRST POSITION AFTER TERMINATING UNDERGRADUATE STUDIES?

(87) a ☐ NONE AT ALL
3 b ☐ YES; I TAUGHT IN ORDER TO RECEIVE CANCELLATION BENEFITS
2 c ☐ YES; I SELECTED A HIGHER PAYING POSITION OVER ONE I WOULD HAVE PREFERRED OTHERWISE
3 d ☐ YES; I WENT TO WORK TO PAY BACK LOAN, BUT WOULD HAVE PREFERRED TO ENTER GRADUATE SCHOOL.

EARLIER YOU FOUND IT NECESSARY TO BORROW A PORTION OF YOUR EDUCATIONAL COSTS. WHAT WOULD YOU DO IF YOU WERE FACED WITH THE SAME SITUATION (I.E., INSUFFICIENT FUNDS FOR COMPLETING YOUR UNDERGRADUATE STUDIES)? PLEASE INDICATE YOUR FEELINGS BY SELECTING THE MOST APPROPRIATE RESPONSE TO THE FOLLOWING QUESTIONS.

33. FACED WITH INADEQUATE FUNDS FOR MY EDUCATION, I WOULD BE INCLINED

7 a ☐ NOT TO BORROW AT ALL FOR UNDERGRADUATE WORK
11 b ☐ TO BORROW AS BEFORE, BUT ATTEMPT TO MANAGE WITH A LESSER AMOUNT
(61 c ☐ TO BORROW AS BEFORE, AT ABOUT THE SAME AMOUNT
20) d ☐ TO BORROW AS BEFORE, BUT AT A HIGHER LEVEL

34. IF YOU CHOSE RESPONSE A OR B TO QUESTION 33, WHAT STEPS WOULD YOU TAKE TO ELIMINATE OR REDUCE YOUR BORROWING?

a ☐ WORK (OR MORE WORK) ON A FULL-TIME BASIS DURING THE SUMMER
b ☐ WORK (OR MORE WORK) ON A PART-TIME BASIS DURING THE SCHOOL YEAR
c ☐ OBTAIN MORE SUPPORT FROM PARENTS OR OTHER FAMILY MEMBER
d ☐ SEEK OTHER SCHOLARSHIP OR GRANT AID
e ☐ INTERRUPT STUDIES TO WORK AND SAVE THE NECESSARY FUNDS

35. DO YOU FEEL THAT BORROWING INSTEAD OF WORKING (OR WORKING MORE) PERMITTED YOU TO CONCENTRATE MORE FULLY ON YOUR STUDIES? 64

67 a ☐ DEFINITELY
23 b ☐ POSSIBLY
5 c ☐ NO

36. DO YOU FEEL THAT BORROWING INSTEAD OF WORKING (OR WORKING MORE) ALLOWED YOU TO UTILIZE MORE FULLY THE NONACADEMIC ELEMENTS OF COLLEGE (SOCIAL, ACTIVITIES, RECREATION, ATHLETICS)?

42 a ☐ DEFINITELY
30 b ☐ POSSIBLY
27 c ☐ NO

37. IF A YOUNGER BROTHER (OR SISTER), OR YOUR OWN SON (OR DAUGHTER) ASKED YOUR ADVICE ABOUT BORROWING FOR COLLEGE, HOW WOULD YOU RESPOND? I WOULD RECOMMEND

(41 a ☐ IT HIGHLY AS A PRACTICAL SOURCE OF FINANCING.
25) b ☐ IT WITH RESERVATIONS
27 c ☐ AGAINST BORROWING UNLESS ABSOLUTELY NECESSARY
6 d ☐ AGAINST IT UNDER ANY CIRCUMSTANCES

38. FOR THE AMOUNT OF BORROWING THAT YOU DID, DO YOU FEEL THAT THE NATIONAL DEFENSE LOAN REPAYMENT PROVISIONS:

17 a ☐ ALLOW MORE TIME THAN NECESSARY TO REPAY THE LOAN
(78) b ☐ ALLOW AN APPROPRIATE REPAYMENT PERIOD
4 c ☐ SHOULD ALLOW REPAYMENT OVER A LONGER PERIOD OF TIME THAN THE PRESENT TEN-YEAR ARRANGEMENT

39. HOW DID YOUR NATIONAL DEFENSE LOAN AFFECT YOUR SELECTION OF THE COLLEGE YOU ATTENDED?

24 a ☐ I WOULD NOT HAVE BEEN ABLE TO ATTEND OR COMPLETE COLLEGE AT ALL WITHOUT THE LOAN
10 b ☐ I WAS ABLE TO ATTEND A MORE PREFERABLE COLLEGE OR CURRICULUM THAN WOULD HAVE OTHERWISE BEEN POSSIBLE
65 c ☐ MY CHOICE OF COLLEGE OR CURRICULUM WAS NOT INFLUENCED BY THE LOAN

40. WHAT IS YOUR CURRENT MARITAL STATUS?

20 a ☐ SINGLE-NEVER MARRIED
77 b ☐ MARRIED
3 c ☐ SEPARATED OR DIVORCED
0 d ☐ WIDOWED

41. IF YOU HAVE NEVER BEEN MARRIED, DO YOU FEEL THAT YOUR STUDENT LOAN INDEBTEDNESS HAS HAD ANY INFLUENCE UPON THAT FACT?

(75) a ☐ NONE AT ALL
17 b ☐ SOMEWHAT, BUT NOT A BIG FACTOR
4 c ☐ DEFINITELY WAS INFLUENTIAL

BORROWERS WHO HAVE NOT BEEN MARRIED HAVE COMPLETED THE SURVEY. THANK YOU FOR YOUR COOPERATION. THE REMAINING QUESTIONS [illegible] FOR THOSE WHO ARE CURRENTLY MARRIED OR HAVE BEEN MARRIED.

42. AT WHAT POINT IN TIME WERE YOU MARRIED?

(8 a ☐ PRIOR TO BEGINNING UNDERGRADUATE STUDIES
12 b ☐ DURING UNDERGRADUATE STUDIES, BUT PRIOR TO BORROWING
24) c ☐ AFTER BORROWING, BUT PRIOR TO TERMINATING STUDIES
56 d ☐ AFTER TERMINATING UNDERGRADUATE STUDIES

43. DID YOUR UNDERGRADUATE LOAN INDEBTEDNESS CAUSE YOU TO POSTPONE YOUR MARRIAGE AT ANY TIME?

1 a ☐ DEFINITELY WAS A DELAYING FACTOR
1 b ☐ WAS PERHAPS A CONSIDERATION
(97) c ☐ DID NOT INFLUENCE MY MARRIAGE PLANS

44. DID YOUR UNDERGRADUATE INDEBTEDNESS INFLUENCE YOU AND YOUR SPOUSE IN PLANNING FOR A FAMILY?

9 a ☐ DEFINITELY INFLUENTIAL
15 b ☐ WAS PERHAPS A CONSIDERATION
(74) c ☐ DID NOT AFFECT FAMILY PLANNING OR SIZE OF FAMILY

45. DID YOUR SPOUSE BORROW ANY STUDENT LOAN FUNDS FOR UNDERGRADUATE STUDY?

(74) a ☐ NONE AT ALL
7 b ☐ LESS THAN $500
7 c ☐ $500 BUT NO $1,000
6 d ☐ $1,001 TO $[illegible]
3 e ☐ $2,001 TO $3,000
2 f ☐ $3,001 TO $4,000
0 g ☐ $4,001 TO $5,000
0 h ☐ $5,001 OR MORE

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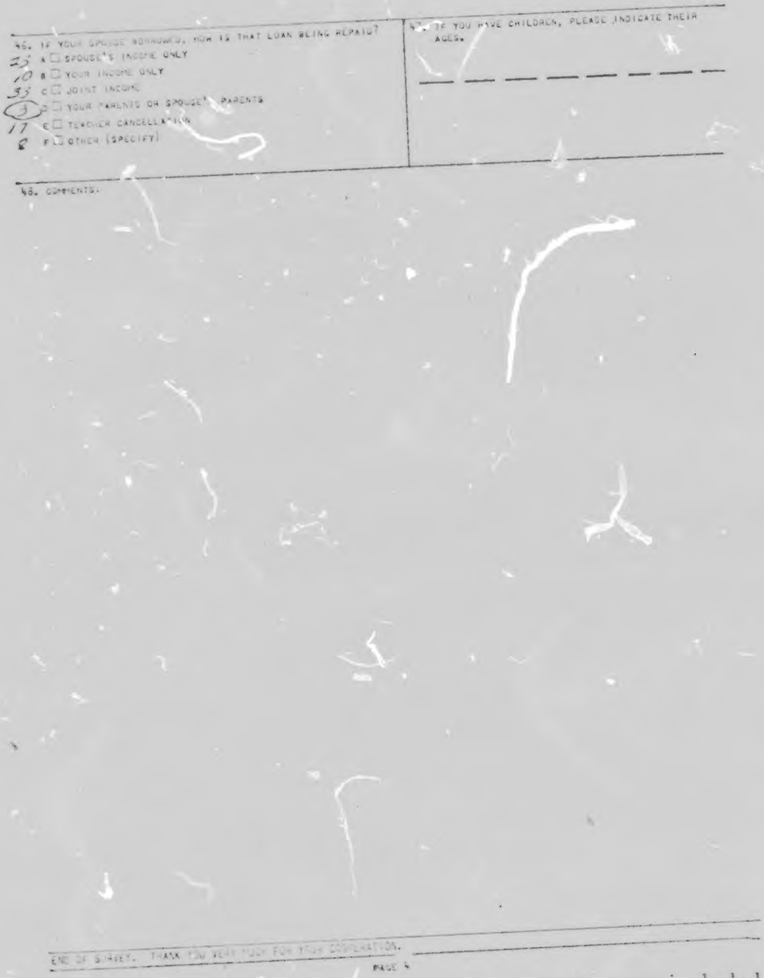

46. IF YOUR SPOUSE BORROWED, HOW IS THAT LOAN BEING REPAID?
25 A ☐ SPOUSE'S INCOME ONLY
10 B ☐ YOUR INCOME ONLY
35 C ☐ JOINT INCOME
③ D ☐ YOUR PARENTS OR SPOUSE'S PARENTS
17 E ☐ TEACHER CANCELLATION
8 F ☐ OTHER (SPECIFY)

47. IF YOU HAVE CHILDREN, PLEASE INDICATE THEIR AGES.

48. COMMENTS:

END OF SURVEY. THANK YOU VERY MUCH FOR YOUR COOPERATION.

PAGE 4

Mr. O'Hara. Thank you very much. The study that you included in your statement I find to be very interesting. You conducted the study?

Mr. Tombaugh. Yes.

Mr. O'Hara. Do you consider you got a good sample?

Mr. Tombaugh. It is a viable sample, a nationwide sample that is representative of all types of institutions, both by size and by type and control. It has been tested statistically.

Mr. O'Hara. The respondents were self-selected, though? Not everybody responded?

Mr. Tombaugh. That is true. Although, for studies of this kind, the response rate was extremely good, not because I did it but because it went out under USOE's letterhead and covering letter and so on.

Mr. O'Hara. Were there any types of institutions, for instance, that failed to respond in proportion? In other words, when your sample came back, did it end up with all the same kind of proportions?

Mr. Tombaugh. No; we tested not only the original sample but also the respondents with respect to several characteristics. We had schools not participating for a variety of reasons, including one of the larger institutions, who could not get their computer to respond with the names of borrowers when we needed it. It remained a good sample even with the nonparticipants.

Mr. O'Hara. Talking about repayment performance, which a lot of people are talking about, starting on page 4 of the summary that you provided us, there are several interesting observations there. In your No. 14, for instance, "(*a*) The percentage of those paying on schedule and prepaying decreases as the amount of the NDSL loan increases." And then "(*d*) the delinquency rate remains fairly constant * * * until NDSL borrowing exceeds $3,000 * * *."

Mr. Tombaugh. That is really an extension of the first statement. The differences are not great; they are very small even though it is constant.

Mr. O'Hara. Then from three to six you have a fairly constant delinquency rate, but then you take another jump when the total amount borrowed exceeds $6,000.

Mr. Tombaugh. The reference to the $6,000 is when the student has more than one loan. The $3,000 was just NDSL. He was all right on NDSL until he gets to $3,000. He is all right on NDSL and some other loan until he gets to $6,000. Once he passes that point, he has difficulty.

Mr. O'Hara. I have some reservations about the ceilings you suggest on page 11 of your testimony. I recognize that they are lower than the combined ceilings are today, but I am concerned that they still may be too high.

Mr. Tombaugh. I share that concern personally, although I think that those levels are reached fairly infrequently by borrowers. The average loan, for example, is substantially less than that. Those borrowers that get to those points are the exceptions.

There are some legitimate cases, particularly with professional training, where that extent of borrowing seems to be necessary. In fact, I suspect that some of the professional schools may raise an outcry at the ceilings proposed in our testimony.

Mr. O'Hara. Maybe we ought to consider separate kinds of ceilings for particular kinds of professional schools, something of that nature, a little more discrete ceiling system that imposes different ceilings on different kinds of institutions, and so forth.

Mr. Tombaugh. Yes, sir.

Mr. O'Hara. Further with respect to repayment performance, I am very interested in No. 16 (*a*), that "those borrowers who fail to finish 4 years pay on schedule as well as those who complete, but their delinquency rate is higher due to the limited opportunity for deferment and cancellation."

Mr. Tombaugh. For the nongraduate, are not able to defer loans for going on to graduate work and for teaching, so the loans become due more readily for those people. So they do have slightly higher delinquency rates in large part because of that. You have just as many people who pay on time.

Mr. O'Hara. No. 17 is also interesting. The more negative their attitude is about the idea of borrowing, the more apt they are to repay the loan?

Mr. Tombaugh. I guess because they want to get it off their back.

Mr. O'Hara. I can understand why the others have a more positive attitude toward it. They have in the back of their minds the idea that they might not repay it. You do get a more positive attitude from those.

Mr. Tombaugh. I brought this study out of the files after hearing your questions yesterday.

Mr. O'Hara. It is very helpful in terms of my questions.

Mr. Tombaugh. It was introduced, I guess, about 3 years ago to Mrs. Green and her subcommittee when they were considering the 10-percent teacher cancellation. I suspect it had some influence in their deciding that the 10-percent cancellation could go by the boards because of the evidence here that cancellation doesn't affect choice at all, but they weren't able to get rid of the 15-percent cancellation or the military cancellation for political reasons. We are still hopeful.

Mr. O'Hara. Are any of you representing institutions that are participating as lenders in the federally insured loan program?

Mr. R. Harrison. We do not. The reason we did not participate in that program is that we felt that the program was designed to use private capital and that, with our State loan commission, we felt that the responsibility should rest with the student loan commission and private capital continue to serve that segment of the student population and that we would, in effect, continue through our own loan program which we have been operating since 1927, through either our own capital or through Federal capital, to serve a different kind of segment of the population.

Mr. Tombaugh. While I was at Purdue, we did participate as a direct lender, as a lender of last resort, where all other institutional resources were exhausted and where the student was not able to get a guaranteed loan from his hometown bank.

You heard Mr. Brademas suggest yesterday that Indiana had not always participated in the program as he would like to see. That is the case. We did see it used as a lender of last resort, which has some implications in terms of the repayment performance that can be expected.

Many institutions who are lenders are lenders of last resort. As a result, they do experience more difficulty in collections than they do with other loan programs or with the banks' experience with them.

Mr. O'Hara. You talk about consolidation. Of course, one way to consolidate is to adopt a number of suggestions or adopt whatever changes seem to be indicated that would make it more attractive for institutions to become lenders under the federally insured program and make it easier for them to obtain the capital they want from private sources and let them be lenders under the federally insured program rather than under the NDSL.

Mr. Tombaugh. It would enable them to keep the students on the same loan program throughout their duration of time at that institution anyway. It is compounded by the fact that we have so much movement between institutions as well as within the same institution, which presents some further complications. That would be one way to do that.

Mr. O'Hara. One of the changes that we made in the law in the NDSL had to do with removing from the NDSL the criterion of academic promise or performance or whatever, and you gentlemen were involved in operating programs before and after the removal of that criterion. I wonder if you have any reactions to the effect of removing that criterion.

Mr. R. HARRISON. I think our feeling in recommending that it be eliminated is that if the aid officer were making the decision who would or would not receive the loan, in effect he was acting, in a way, as an academic officer dismissing the student. In effect, we felt it was not the position of the aid officer to determine whether or not that student should remain at the institution.

So we felt very strongly that as long as the institution felt that that student should be able to continue to enroll, that aid should be made available to him, and we have not seen any impact as far as increasing delinquency as a result of that decision.

Mr. TOMBAUGH. In fact, the ability to keep them in school and work with them and get their academic standing back may well enhance the collectability of the loan when they get finished. Sometimes you get to the point where you already have an amount invested and the only way to recoup that investment is to keep them going.

Mr. O'HARA. I am interested in how your profession in general makes the determination of priorities. In our review of the college work-study program, we found panel-approved work-study jobs far exceeded the number that were eventually funded.

You have indicated in your testimony today that the approved amounts for NDSL appropriations run in the neighborhood of $600 million and the amount that is actually provided is——

Mr. TOMBAUGH. 293.

Mr. O'HARA. A little bit less than half. So, obviously, you are in a position or you seem to be in a position of having more applicants for assistance in these packaged assistance programs than you have funds to assist.

How do you decide, under those circumstances, whom you are going to assist and how much? How do you distribute the inadequate amounts of help?

Mr. R. HARRISON. I think one example might be from the statistics I showed you in which I referred to one, a concern we had about support to the average graduate student, yet indicated only 130 out of 3,999 borrowers were graduate students.

The problem we were faced with was inadequate resources and we had to make priority choices. We felt even though there were legitimate needs by large numbers of graduate students not being served, that they might have better access to loans through the guaranteed loan program than would undergraduates, especially undergraduates who might be minority students from low-income families. In particular in the national defense loans, our statistics show the way in which we felt that limited money ought to be used.

Mr. O'HARA. Why don't we go through that a little bit. First off, you preferred undergraduates to graduates, is that right?

Mr. R. HARRISON. That is correct. We preferred low-income to medium-income. In other words, in our priorities, we, in effect, targeted the money for the low-income students and, in effect, had large number of graduate students, independent students, et cetera, who qualified by every sense of eligibility. We simply said to them we had to establish our own priorities and this is, in effect, where we put our funds.

Now, even though the law also allows us to support half-time students, again we "prioritize" the use of full time. In our particular funding this year, we received 57.64 percent of our panel-approved requests, $2.4 million out of a request of $4.1 million. In other words, again this year we will have to establish priorities and, I would assume, will continue with the same kind of idea of looking at which students are most likely to get the guaranteed loans and then, in effect, using the national direct student loans for those other students, primarily low-income, higher-need undergraduates.

Mr. TOMBAUGH. Herm would like to speak to this from a community-college point of view.

STATEMENT OF HERM DAVIS, DIRECTOR OF FINANCIAL AID AT MONTGOMERY COLLEGE, ROCKVILLE, MD., AND PRESIDENT OF THE DELAWARE-DISTRICT OF COLUMBIA-MARYLAND ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. DAVIS. Mr. O'Hara, as you recall, you spoke to our association and afterward we were speaking about the problems of the community college center.

I am sure you gentlemen realize—and I speak for the community college—in essence, our students in the main are not eligible for the guaranteed student loan program because of the built-in discrimination factors.

In reference to packaging, again because of the low appropriations to our community colleges, the low-income students will be discriminated against for several years. Priorities go to continuing students up to a certain deadline. From that point on, continuing or not, they go back in and are treated as an initial student on an enrolling basis, which means first come, first served in the community college because of the open-door accessibility.

With that in mind, low-income students from inner cities do not necessarily have a good track record of always applying on time or early, which means the students who are coming from families who are conditioned to filling out forms a year or 6 months in advance by nature will get the first dollar. So we do have a problem, we do have a conflict.

Mr. O'HARA. Do you have any "first come, first served"?

Mr. R. HARRISON. What we have tried to do is first of all arrange a packaging procedure which would take place in the spring and summer for those students who apply on one application for all of our program, and then keep applications open during the remainder of the year.

We do have special minority programs with students identified ahead of time and try to set funds aside and make sure those are met.

But we do have students who would be coming in, being admitted in odd quarters, in other words, entering in the spring or summer, and we have a very difficult time trying to serve those particular needs even though they are very legitimate.

Mr. O'HARA. Do you have any preference for previous——

Mr. R. Harrison. Not really. I think the thing that we have done to try to serve both areas is to reduce the maximum we would allow. In other words, even though the law would allow a certain level, we would arbitrarily set a lower maximum and then encourage students through work programs, et cetera, to reduce the borrowing and spread the dollars further.

It is always a difficult decision on which way do you go: Do you serve all the needs of a smaller group or serve lesser needs of a larger group? This is a problem we face every year.

Mr. Tombaugh. This is the other rationing device I was going to mention, that is, simply not providing as much resources as the student really needs and making him scrape to get by, trying to get enough of his package filled that he will still come, and yet the minimal level that he could possibly get by with.

Mr. O'Hara. Mr. Harrison, when you say you give preference to low income over what, moderate income? Give me some notions of figures.

Mr. R. Harrison. We would hold those over $12,000 off. In other words, in our packaging techniques we would set priorities of the kinds of students we would meet until we see what money was expended. After we had some idea of the needs of those particular groups, we might increase them to a little higher income range as we see what our expenditure pattern is.

In other words, we would establish a ceiling, for example, of $12,000 or less and we would see what our real needs were, projected for the whole year, to serve those students. If we felt we could adequately serve those as a result of expansion of the State grant program this year and Federal grant program, we would then move up the income range.

It is not an arbitrary cutoff. It is based a little on supply and demand, and especially availability of other resources.

Mr. O'Hara. As between those having under $12,000——

Mr. R. Harrison. In effect, what we have tried to do is set a ceiling based on the experienced numbers of applicants we would anticipate, and deal with all those students as a single group.

Mr. O'Hara. Do you prefer minority group applicants over others?

Mr. R. Harrison. Not really, except we do have special programs in which we guarantee minority students adequate support, and in those programs we usually have a package of three-fourths gift aid and one-fourth self-help, which would be a combination of loan or job.

So we try to keep the self-help to a minimum. But we feel very strongly it should be included. We, by and large, let the students make the decision whether they prefer to borrow or work. In some cases the work requirement would be such that we would think for first-year students it might be excessive. Therefore, we would put the two together.

Mr. O'Hara. That last that you described, is that just a particular minority group program?

Mr. R. Harrison. Yes; we have a program that we call freshman foundation.

Mr. O'Hara. Why don't you describe that.

Mr. R. Harrison. We try to identify approximately 400 students—these are identified through contacts made by your admissions and minority staff through the high schools in Ohio. As a State university, we focus our efforts on Ohio students. We are trying to identify those students who may, through no fault of their own, not have done as well in high school as they might have but through supportive services in college may be able to succeed and do well.

We therefore make a commitment each year, and this year is our fourth year in this particular program, to bring in at least 400 students. These would include primarily minority, most black, some Appalachian poor white, some Chicano, et cetera.

These students then are immediately put into our developmental educational program, in which their particular educational and social needs are identified and given whatever supportive services, whether it be pure counseling, whether it be special tutorial work, et cetera.

So it is an identification process starting right back with the high school counselor who helps us identify these students to be guaranteed support through the number of years it would take to get a baccalaureate degree, as long as they maintain good standing.

So it is a combination effort of financial aid, supportive services, counseling service, et cetera.

Mr. O'HARA. What is the current cost of attendance at your institution?

Mr. R. HARRISON. The total cost, including room, board, books, tuition, incidentals, will be $2,800. The average financial aid to these students is about $1,800.

Mr. O'HARA. Of which one-quarter——

Mr. R. HARRISON. Is either loan or job.

Mr. O'HARA. It is getting on to the time when the House is going into session to read for amendment a bill from this committee. I think this will probably be a good time for us to adjourn.

I want to thank you gentlemen for appearing before us today.

Mr. R. HARRISON. It is our pleasure.

Mr. O'HARA. Our next hearing is tomorrow morning at 9:30 in this room.

The special subcommittee will now stand in adjournment.

[Whereupon, at 11:55 a.m. the special subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, May 30, 1974.]

WORCESTER, MASS., *July 13, 1974.*

Congressman JAMES G. O'HARA,
Chairman, Committee on Education and Labor, Cannon House Office Building, Washington, D.C.

DEAR CONGRESSMAN O'HARA: Worcester County Institution for Savings Bank of Worcester, Mass., has guaranteed Mark Pearson a sum of $1,500 in August for his sophomore year at St. Michael's College in Winooski Vt., 05404.

I must inform you and your committee of the success in labor and the satisfaction to a 51-year-old parent in the middle-income group. True, it's a loan but I never received handouts and am extremely willing to see the final bill paid, and, with honor.

Somehow the flag has richer color!

Were your hearings of late May and early June ever published and made available to the public?

If so, a copy will be appreciated.

Please accept my sincere, "Thank you."

Very truly yours,

RUDY PEARSON.

STUDENT FINANCIAL ASSISTANCE

(Student Loan Programs)

THURSDAY, MAY 30, 1974

House of Representatives,
Special Subcommittee on Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to recess, in room 2267, Rayburn House Office Building, Hon. James G. O'Hara [chairman] presiding.

Present: Representatives O'Hara, Dellenback, and Erlenborn.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Today we will continue our hearings with respect to Title IV: Student Assistance Program. The focus today will be on loan programs.

Our first witness is Kalman A. Lifson, chairman of Lifson, Wilson, Ferguson & Winick, Inc., a general management consulting firm, the largest headquartered in the South and Southwest. He is also president of Electronic Management Information Systems, Inc., which licenses banks to use proprietary computerized management control systems; and chairman of COSAR, Inc., which manufactures electronic products.

Mr. Lifson will testify this morning on the study and recommendations made to the Office of Education by the Young Presidents' Organization, of which he is a member.

The Young Presidents' Organization is a group of businessmen from various segments of the economy, all of whom have become presidents of their respective firms before reaching the age of 40.

Commissioner Ottina requested YPO to examine the guaranteed loan program and to make what recommendations they felt appropriate for its improvement.

It is my understanding that the YPO report has not been adopted or endorsed by the Office of Education or by the Commissioner. Nevertheless the credentials of the men who put it together with the imaginative and constructive content of the report—copies of which have been made avaliable to us—gives it an appropriate place on our agenda.

Mr. Lifson, if you would please take a place at the witness table we will be very happy to hear from you.

STATEMENT OF K. A. LIFSON, YOUNG PRESIDENTS' ORGANIZATION

Mr. LIFSON. Thank you.

It certainly is an honor to be here and we would be very gratified if the work that the YPO team put into this study will be of use to you.

The study was done as one of the leadership activity committee activities with YPO. The leadership activity committee is a way to provide an opportunity for the individual YPO member to use his time and talents for the benefit of the community.

That is what we hoped we were doing when we conducted this study.

YPO is able to draw on those members with some special knowledge of the situations that they are addressing and in this case those were two bank presidents, one from a large bank and one from a small bank, and two presidents of educational institutions, both of whom are officers in the associations for that type of school, and two men very knowledgeable about student activities.

The views that I will relate today of the team members and the views that are expressed in the report should be considered as their individual views rather than that there is any agreement among YPO's that we are representing YPO in the report.

The report is the views of us as individuals who gathered together and only two of us ever met each other before we were on this team assignment. I want to make sure that this disclaimer gets into the record.

The charge by Commissioner Ottina was threefold. He wanted our opinion of the views on what he called the external world: The schools, the lending institutions and the students. We wanted us to discern from examining these views that we felt the problems, the malfunctions of the program were, and third, to recommend solutions addressing these problems.

In brief, we met in Washington and were briefed by members of the Office of Education's staff and then we set about to interview those people whom we had a special knowledge about such as bank presidents, bank loan administrators, college presidents, trade school presidents, the financial officers, people sort of intermingled in the institutions that deal with the guaranteed student loan program.

We then met again several times to relate to each other our findings and sometimes the staff of the Office of Education participated in these meetings.

First, I ought to say we did not directly interview any students, so that our views of the students are really those reported by the schools and the lending institutions.

We did not investigate the internal operations of the Office of Education. We did not discuss any of the functionings of the State agencies, and in terms of lending institutions we did not talk with savings and loans or credit unions or any others except banks.

Our study was limited in that way.

Naturally, our study was limited in time and it might be well to consider that much of what is reported is based on the background and special knowledge of the individuals.

We reported the views of the three parts of what Dr. Ottina referred to as the external views in the report and they really are very candidly eloquently stated, often with rather pithy expressions. I think that the quotes in the report add a great deal more than I can report in this summary this morning.

We considered these three views, that is, of the schools, lending institutions and the students in dissecting the problems as we saw them into six areas.

Those areas are, first of all, the collection of the present debt, which we feel must be treated differently from collection of future debt.

The intended target and actual target and the need for the program is the second problem.

The collection of the future debt is the third problem.

The availability of funds is a fourth problem.

The manner of administering the problem is a fifth problem. What we referred to as the straining of integrity of the Government, the schools, the lending institutions and the students is a very serious sixth problem.

These problems are all interrelated. Each recommendation is mainly focused on one of the six, but each certainly has byproduct effects on the other related problems.

I will proceed in any way that you want to. What I had intended to do was to give an overview, a few words about each of the six problems. I can then go into depth in any one of the problem areas or I can give an overview of our recommendations.

Mr. O'HARA. Well, I think, Mr. Lifson, perhaps the best way to handle it would be if you give us a brief overview of the problems and your major recommendations in each of the six areas. Then I will open up the matter for questions and members of the committee might wish to draw you out on a particular aspect of what you say.

Mr. DELLENBACK. Mr. Chairman, may I ask a question at this stage? Do we have in the prepared task force report before us a summary of problems and recommendations?

Is there any place in this report that details these six areas to which you now refer, Mr. Lifson?

Mr. LIFSON. Yes.

Mr. DELLENBACK. Are they outlined here?

Mr. LIFSON. Yes; they are in the table of contents, the six problem areas are under the "Team Views." The report is organized the way that Commissioner Ottina asked us to do it.

First, we reported back the views of the external world and then we reported back the team views on the six problems, intermingling our recommendations along with the problems. But on the second page of the table of contents, IX, we would start out with "Team Views of Collection of Present Debt," and X is "Team Views on the Target and the Need for the Program," and XI is "Collection of Future Debt," and chapter XII is "Team Views on Availability of Funds," and XIII is "Team Views on Administration," and XIV is "Team Views on Straining of Integrity."

Mr. DELLENBACK. Those are the six problems?

Mr. LIFSON. Yes.

Mr. DELLENBACK. Thank you very much, Mr. Chairman.

Mr. O'HARA. I might add, Mr. Lifson, you see one of our problems is we didn't get these reports from the Office of Education until this morning and we have not had a chance to really thoroughly review them.

I think the method you suggested is a good one, starting off with, I guess, in essence, No. IX of the table of contents.

Mr. LIFSON. Yes.

Mr. O'HARA. All right, why don't you do that, please.

Mr. LIFSON. All right, the team views on the subproblems relative to the collection of the present indebtedness is, first of all, there was not apparent to us, in the Office of Education, any concept of a system of collecting this debt.

That may have been a lack of emphasis in the briefing that was given to us, but it was signaled by its absence rather than anything we could criticize, that the Office of Education did not seem to have any concept as to how this debt should be collected or any systematized way of going about it. That is one of the problems.

Another problem is they don't have enough personnel to collect this kind of indebtedness.

Another sub-problem is they are not permitted to use any outside help, any outside collection agencies in collecting the debt. Thus far, no litigation in attempting to collect the indebtedness has been used.

Another serious problem is: In addition to the amount of default that is present and apparent, there is a substantial amount of what we call "overhanging default," default that has not yet matured, but which OE has already perceived.

Then there is some overhanging default which OE has not perceived which has arisen in that schools, and we think some States, have repurchased their paper so as to show a spuriously low default rate.

There is, in effect, a box of defaulted paper overhanging a claim on the Government. These are the problems that are involved in the collection of the present indebtedness.

With regard to our recommendations, we first feel that the collection of this debt should be done with a degree of toughness which considers that much of this indebtedness was incurred by the student under situations that at least the student could consider fraudulent or misrepresentative or at least in ignorance.

That should not be true of the collection of the future indebtedness. But, here, we are in effect seven fairly hardnosed businessmen saying: Don't really put all of the pressure that you would otherwise on the students because of the situation surrounding the incurrence of the indebtedness.

Second, we would very, very strongly insist that the Government not staff up to collect the present indebtedness. That is a one-time workload that, if you do the things that we, as well as other people, have recommended be done in the future, this kind of workload of collection of default will not continue.

So, at least for this one-time shot, OE should contract with an outside collection agency.

We recommend establishing a deadline for these overhanging defaults, that is, tell the institutions that have bought back their own paper either to submit it within a year or some other time period, or the claim on the Government is no longer valid.

We very strongly suggest that the Office of Education consider that it is not equipped to perform any collection effort.

We say, "consider it." We say "absolutely contract the bulk of it with outside contractors," but you might consider the kinds of people that make successful collectors and whether they work successfully in a Government atmosphere.

Our studies indicate that they do not. Our speculation of the Government atmosphere is such that the kind of a fellow who is a successful collector is not going to be found in the Government.

Next, we say that the OE certainly should systematize, should perform some kind of a system study on its collection effort.

The next problem area is the target and the need for the program. We all agreed that the program is needed and we all agreed that the original legislated target, the middle-class student who needed a loan of convenience, was certainly appropriate. But we felt that by administrative action, the actual target had shifted from the legislated target and that there was considerable confusion among all concerned, as to whether the program was designed and is being administered and is perceived by students and schools as a lending program or a disguised grant. This is evident among the recipients and administrators and lenders and schools.

We felt that the characteristics of the student target were unsure and were being changed from the legislative intent by administrative procedures.

We felt there was some question as to practical access of students to the program, either by awareness or the fund availability or other things which were part of the problem of the target.

We felt that, again, not so much by what they said, but by what they didn't say, that there was no calculated knowledge among the Office of Education's staff as to the ultimate amount of Government subsidy the program would require or whether the program as presently administered used the subsidy in the most cost-effective way.

There is a concern among us that expenses were not planned and the amount of money just sort of happened.

We felt that a very serious shift in what we call the institutional target had occurred, that the program was moving enrollments from small colleges to large universities, from financially weak institutions to financially stronger institutions, from small independently owned proprietary schools to those proprietary schools that were a subsidiary of a large corporation or had very strong banking connections.

We felt that this was not what was supposed to happen either legislatively or in line with other public policies.

We felt that the goals of the Office of Education's staff were not stated in an appropriate way, that their goals seemed to be loan volume rather than education enhanced.

Many of the other solutions that are listed deal with defining the target but, in substance, I think we say that the target ought to be legislated and then not changed by administrative action.

Mr. O'Hara. Hear, Hear!

Mr. Lifson. Well, you see, we have the advantage of making these recommendations in complete naivete.

Mr. O'Hara. If we can find a way to do that, we would have found a key to one of our great problems.

Mr. Lifson. Well, we think that both the administrative action and the legislation would be helped by any information about the ultimate size of the market. We would say the market could be defined as undereducation caused by financial strains.

We would like to see the market share, and again we are thinking in businessmen's terms here, that is presently served by the GSLP project. We would like to see awareness and perception of the product in the market and some kind of analog to a price-volume relationship.

I find it difficult to express this verbally or in the report, but we felt that the Government has a certain more or less fixed amount of money to spend on educational loans and that that money presently is being spent really in three ways: Some of it is being spent in administering the program. Some of it is being spent on interest subsidies, either the full subsidized interest, or the amount that the Government makes up over and above what the student pays (the special allowance) and some of it is being paid on defaults.

We feel that consideration of how to distribute that sum of money has really not been based on very much information. We think that if the study were made the result would be to spend less on the default, probably more on the administration and less on the interest subsidy the Government has to pay.

But the people in the Office of Education did not seem to have any concept of that kind of thinking. That is what I mean by defining the target and legislating the funds to serve that target.

Our other recommendations that bear on that particular problem are to consolidate programs, one loan program and one grant program.

A recommendation that is really more aimed at correcting the default situation is to eliminate interest-subsidized loans. If the individual is from a middle-class family and needs a loan of convenience, lend him the money. If he is not able to pay the interest, make that a grant, but have one loan program and one grant program. Don't confuse them.

Eliminate the needs analysis for the loan program. I think that has been substantially done already.

Prevent the schools from being lenders, either directly or indirectly. That would help to correct this shift of institutional target by spreading the support out to all instituions, making the loan what they call portable rather than in effect giving all of the help to the financially strong institutions.

Part of defining the target, at least in the eyes of the students and the schools and probably the bankers, would be to require a downpayment and ongoing interest payments. This will tend to assure a student target that is committed to becoming educated.

This recommendation may create some problems in costs in administering the program. I will address that when I talk about the problems of banks. We feel the benefits of doing this would far outweigh the costs.

Reassess the appropriateness of the program for home study students. In the report itself you will see some quotes from the presidents of home study institutions that indicate that GSL may not be appropriate for their use.

Then restate OE goals in terms of educational enhancement rather than money loaned. Cost effectiveness should be part of their goals, too.

In the collection of the future debt: part of the problem is the attitude of bankers that this is a money-losing proposition, and they just really are not going to put the effort into collecting the debt that they would if it were their own money.

Part of it is attitude of the students who do not really understand that they are getting a loan rather than a grant, or who understand it but are coerced by the salesmen or take loans figuring that they have a way out of paying it when they graduate.

Part of it is in the posture of the schools who, in effect, are now selling loans rather than education and who, to use the term "cream" the good credit risks for themselves. What GSLP winds up with is the credit risks that nobody else wants.

Part of the problem is in knowledge of when a loan is in default and then locating defaulters. Part of it is in the prohibition or at least practice of prohibition against using legal remedies.

In summary, our suggestions here are, No. 1, preventing the schools from being lenders either directly or indirectly. Schools are not set up or staffed to perform this function and they are more likely to misrepresent the fact that it is a loan rather than a grant than the banks would be.

We think we cut some of the debt problem off of the front end, a substantial amount by eliminating schools as lenders.

Again, some of the team members question whether home study schools are appropriate for this. Traditionally, home study schools have a noncollection rate that is in the maybe 20- or 30-percent range and this just is not the kind of a noncollection rate that GSLP should tolerate.

Eliminating from the program the loans with subsidized interest payments is an absolute must. The routine payment of interest provides an immediate continued contact between the student and the lender and students who are willing to make an interest payment are much less likely to default on the principal amount.

In collections, once you get that first payment made, you are over the hump. A significant majority of these students who have defaulted never made payment No. 1. That is true in our other lending and collection experience as well. It is absurd for us to have a program wherein the first payment by the student may be some years deferred. You are just inviting default.

We also say to require a downpayment from each student. The figure of $100 was suggested. This, we feel, would also do a lot in the same vein to correct that default situation as well as to improve the target to those committed to education.

We would want the interest payments to be made by the student monthly. Just thinking of the amount of interest payments and our personal knowledge of students, we felt that if the student is not willing, and this is not in the report because we did not know how to say it, but if a student is not willing to wash cars or mow lawns or wash dishes, or something, enough to earn another $8 and $10 a month to make the interest payment, he is not probably all that interested in his education. We feel that the advantages of reducing the amount of default and therefore enabling the Government to fund much more education would far outweigh the disadvantage of any disabling of some students to receive their education because they could not afford the interest payment. Even in that situation, we said to go ahead and give them a grant to pay the interest, if we have to, but make them make that payment monthly.

Another recommendation had to do with having a specialist, currently knowledgeable about the program, that perhaps OE would train and certify at each lending institution.

We felt that when the student enrolled in school he should reaffirm, by his signature, that it is a loan and the conditions of the loan and at that time waive the defense of bankruptcy and infancy and let him put down a social security number and say you can use social security to trace them. You should just make it evident to the student that it is a loan and that you will use every power that you have to collect it.

Some of the problems in defaults occur because funds are paid to the school way out of proportion to the education received.

We said that funds should be disbursed in proportion to the education received and that would eliminate some of the cancellation and refund problems.

Require exit interviews and shorten the grace period. Publish a report card on both schools and lenders relative to dropouts among student borrowers and delinquencies and loan repayments.

Do a system study on OE collection efforts and one of the suggestions that some of the members agreed with, and this has more to do with funding than default, is that when the loan matured it would be purchased from the bank by the Social Security Agency, who would then collect it through the regular social security deductions.

Now, I can go into that more, if you like.

With regard to the fund availability, I can best state that by some quotes:

> The primary reason funds are not available is that the program is not a profitable use of the bank's assets. The nominal rate is less than the cost of funds. The bonus of the special allowance is uncertain and does not cover handling costs and until this law that has recently changed becomes effective, the nonearning use of assets while the claim is being processed further reduces the yield.
>
> In addition to the very direct high handling costs of these loans lenders feel that there are unknown but substantial indirect costs involved, primarily the requirements for bank officers to deal with the Government, the schools and the students and assured adherence to unclear and frequently changing Government procedures.
>
> The growing uncertainty about Government guarantees is another detriment to the fund supply. An additional factor is the relative unliquidity of this asset use.

Another quote:

> We entered the program partially on the basis of improving service to our market and partially for the good of the public. We are dubious about the advantages in the marketplace. We know the loans are unprofitable and damage our liquidity and we feel as long as we are doing this for the good of the public, at the strong request of the Government, that we are enduring uncalled for costs and irritation because of the way the Government is administering the program.
>
> Inordinate amount of paperwork, actual delay and perceived procrastination in payment of claims, lack of definition of due diligence in collections, rumored requirement for due diligence is lending if indeed we had to use diligence in lending we would never make any of these loans.
>
> Confusion in the Office of Education as to regulations and low, uncertain and arbitrary yield.
>
> That sums up why funds are not available.

Our recommendation, or rather recommendations about fund availability are: if indeed you legislated the target and legislated the funding for the target, it would help.

Second, the yield rate should be established that would not require banks to subsidize the program. We feel that it is an imposition on the banks to ask them to do this and that if subsidy be required, it should be at the expense of the general taxpayers rather than the lender segment of the economy.

We would suggest tying the yield rate to some specific measure like Federal funds rate, or prime, or Treasury bill rate. Our favorite is the Federal funds rate, what the average would be for that over a time period, and the banks should be certain as to the yield.

Some other recommendations concern the calculations of liquidity and capital adequacy, which is done by the bank regulatory agencies and consideration should be given to the fact that these loans are Government guaranteed.

Provide operational definitions of "due diligence in collections." I believe that has been done now.

Provide operational definition of due diligence in loan initiation.

Eliminate procrastination and delay in payment of claims.

Simplify, establish, and make uniform throughout OE its dealings with and requirements of the banks.

Those of us knowledgeable about banks and banking operations felt that the administrative costs to the banks and the schools of these loans could be substantially reduced by making the requirements parallel with existing installment loan procedures. A study should be made, not only of the procedure of how the loans are administered to reduce the paperwork cost, but also of the special requirements that were established that entail costly procedures.

It would not be a study limited to how to comply with the requirements, but include the wisdom of the requirements as well. In other words, bend the requirements to allow us to parallel existing installment loan procedures.

Just to give you an idea, most of the banks who know their costs feel that these loans cost in the neighborhood of 4½ to 5 percent of outstandings to administer, which is about three to four times as much as the cost to administer a regular installment loan.

There are firms, generally banks, which contract with smaller banks or other banks for the administration both of these loans and regular installment loans.

Again, we are talking about a factor of four or five times the cost to administer these versus the regular installment loans. We think that could be cut.

We think incidentally, the Office of Education should promulgate knowledge of these contract processors and endorse their guarantee of due diligence. This would eliminate uncertainty in the processing costs and in the views of many banks reduce the processing costs and make the guarantee something that they didn't have to worry about.

With regard to funding, there were two other suggestions. One of them was that the loans could be made attractive by authorizing some Government agency to purchase these loans at a discount favorable to banks or to use them as collateral for loans that were made at rates below the current cost of funds for the banks.

Although the team did not specifically investigate Sallie Mae, favorable comments about it were conspicuous by their absence.

Here is where this concept of social security really came into play. We felt that this program was sort of a front end social security. It was the disbursement of money at the beginning of a person's career rather than at the end of it. Viewed philosophically or conceptually, investment in education would reduce the individual's need for social security at the end of his career and probably increment his input into the social security system during his career.

If this logic is followed, we said it would make sense for social security to buy the paper from the banks when the loan enters the payout period and then collect it by incrementing the payroll deduction.

We discussed the fact that maybe you just keep deducting past the present limit for social security—about $13,000 a year now—and just keep that on, you know, up to maybe $20,000 or $25,000, so that the individual who really benefited vocationally from this education would be indeed paying it back. Those individuals who never benefited would be paying hardly any social security, thus really would not be paying it back. We support that sort of philosophical consideration.

The problems with regard to administration concerned the paperwork that the schools must perform, which is very cumbersome for them and about twice as cumbersome, for example, as the NDL program which we did not investigate.

The paperwork in the banks is a real problem, as indicated by the magnitude of the cost that I mentioned. The manuals and the procedures furnished by OE are missing and inadequate. There is much confusion perceived by schools and lenders. The schools and lenders perceive that OE is confused. They get what they perceive as conflicting directives and they get particularly with schools that operate in many States, get different interpretations from the different regions. They feel that the directives change or zigzag from their direction very frequently. There is just general confusion that exists in the administration of the program emanating from OE. Banks feel there is unwarranted application approval delay, and they perceive the Government as procrastinating in paying off of the claims.

The suggestions deal individually with each of those problems and they involve, in effect, the Office of Education "cleaning up its act" and performing studies to simplify the paperwork and staffing up to eliminate the application delay and defining due diligence so that the claims could be paid and other administrative-type recommendations.

The problem of the straining of integrity is probably the one that bothered us the most and I am going to just read from our report:

> The problem of straining the integrity of students, schools and lenders and the perceived integrity of the Government is also suffering.
>
> Specific suggestions to reduce the strain on integrity have been incorporated in the suggestions relative to other problems.
>
> Of particular significance are those concerning the change in the student's attitude by acknowledging the loan contract, making a downpayment and making monthly interest payments.
>
> The definition, legislation, and funding of the target and the modifications and clarifications required of OE.

Now, when we talk about straining the integrity, we feel that the banks and schools are beginning to distrust the Government because of purposeful procrastination in paying off the claims, in at least perceived confusion about the target and administrative procedures with OE. We feel that the banks are straining their integrity by really coercing the schools to get around the law by making it attractive for banks to lend either to schools or to lend to students. Schools are straining their integrity by doing this with the banks and they are straining their integrity by coercing students by misrepresentations or high pressure selling techniques to sell loans rather than education.

What happens is that the cost of the schools goes up enormously and it must be passed on to the students one way or another. The students are not starting out on the right foot if they are thinking when they make the loan about taking bankruptcy action or about evading or avoiding payment of it or about misusing of funds or about considering it a right rather than something they must apply for.

Mr. O'Hara. Mr. Lifson, we appreciate your work very much. I am very impressed by your report. I think that maybe what you are really saying is that the guaranteed student loan program is not a very well-conceived program, is that right? Or at least that is the way it operates.

In the first place, it is being called on to carry a very large share of the load. It is not an attractive program for lenders. The borrowers feel put-upon. They feel that they ought to be getting a grant or that they are being taken in some way, at least a large share of them feel that way.

Those who get into the program almost uniformly have had a bad experience with it.

The schools have staggering burdens of paperwork and much more than they do with the direct loan program. The banks have staggering burdens. They are being asked to perform an unnatural act, that is, to loan money to someone they do not consider a good credit risk. They are kind of unhappy about that.

I think if we were to do a one-sentence summary of your report, we would say the program is a mess; is that right?

Mr. Lifson. If I may be allowed to give a one-sentence summary, I would say that the program of providing loans of convenience to middle-class students is very much needed.

Mr. O'Hara. But this is not it?

Mr. Lifson. But this is not it.

Mr. O'Hara. Yes; all right. I think that is even a better one-sentence summary than mine, although I am not going to give up on mine.

Mr. Erlenborn, do you have any questions you would like to direct to Mr. Lifson?

Mr. Erlenborn. Thank you, Mr. Chairman.

Building on the last exchange, let me say this program originally was designed to be the vehicle for loans to be made among middle-class students. Much to my displeasure, it was changed to the one of a loan of necessity rather than of convenience.

Let me ask a question about one of your observations, and I guess these pages are not numbered. Well, some of them are and this should be page 78, item No. 13, where you say that there ought to be a way to discount these loans or use them as collateral for borrowing. Then you make the observation, "Although the team did not specifically investigate Sallie Mae, favorable comments about it were conspicuous by their absence."

I am a little confused by that statement. If you didn't study Sallie Mae, why would you comment favorably or unfavorably?

Mr. LIFSON. We had thought, in interviewing the bankers, that there would be considerable comment that they expected some participation in Sallie Mae. They just did not. Although we didn't study it, two of the members of the team are bank presidents and very knowledgeable about Fannie Mae and Sallie Mae and other such programs and they were surprised that there were no comments.

Mr. ERLENBORN. I see. That clarifies it. The favorable comments you are talking about are not from your team members, but from the bankers?

Mr. LIFSON. Right.

Mr. ERLENBORN. Since Sallie Mae does provide a place to discount and a place to use the loans to borrow money, a much needed service, can you make any observations as to why, since that service is apparently needed and Sallie Mae furnishes that, it would not be looked at favorably?

Mr. LIFSON. I think that it would be looked on favorably, but the prognosis for Sallie Mae's flying is not good in the eyes of the bankers. There really is no market for that paper. What the banks are looking for is a place to move that paper, not just keep reinvesting it without any points.

So, does that answer your question?

We don't think it is going to be a source of funds, although we did not study it.

Mr. ERLENBORN. Yes. Thank you.

Mr. LIFSON. If I may elaborate on our views of the program, we do not think that the program should be abandoned. The things that need to be done to bring the program back to providing loans of convenience to middle-class students, with availability of funds and smoother administrative procedures which are certainly "double." The skeleton and the original concept of the program is very good. You just have to refurbish it somewhat, in order to make it viable.

Mr. ERLENBORN. Are you suggesting, for instance, that the family income test, $15,000, for instance, or maybe an increased amount for the subsidized loan be reinstated?

Mr. LIFSON. We don't think there should be an interest subsidized loan. We think that the student ought to pay the interest on all loans, and if he is too distressed to pay the interest he ought to be given a grant to pay the interest and if distressed beyond that point he ought to be given a basic educational opoprtunity grant.

We do not think the needs analysis is useful at any income level. In other words, we felt that the needs analysis test was so cumbersome to administer and that you are sifting out so few recipients who really should not, you know, because they are wealthy, should not get the loans, that it is just not worthwhile doing.

It would be cost effective to let everybody who wanted a loan of convenience and was willing to pay the interest get the loan, regardless of his family income.

Now, there is a middle ground probably in just looking at the Internal Revenue return and if the adjusted family income is $15,000 or $16,000 or some $17,000 you don't need a needs analysis test or make that test, but our real feeling is that would sift out just such minor disbursement of funds, it would be worth doing.

Mr. Erlenborn. Did you find anywhere that there was a growing difficulty in utilizing a needs analysis because of the earlier emancipation of students, many students feeling that at age 18 they can vote and apply for food stamps and that they consider themselves being emancipated and therefore their family income is irrelevant?

Mr. Lifson. We did not directly interview any students and I would not be able to comment on that at all. Certainly the comments of the bankers and the schools do not indicate that. They principally indicated they were distressed by the student's feeling that this was a right. They were coming in demanding the loan rather than negotiating or applying for it.

Mr. Erlenborn. Thank you very much, Mr. Chairman.

Mr. O'Hara. Thank you, Mr. Erlenborn.

Now, Mr. Lifson, you have a number of very interesting and challenging recommendations. Of course, you understand it is going to be very difficult for this committee but I think the committee is going to have to tackle the question of the administrative details.

Rather than having the executive branch get into the business of legislating, maybe we ought to have the legislative branch get into the business of administering.

So, we are going to have to go into the whole question of how this thing is administered because, you are right, the administration is very cumbersome and very difficult and you are not the first witness to have said so, but you are one who said so very convincingly and with a good deal of experience behind you and work behind you.

With respect to the collection problem, I agree with you that we have not been terribly successful and that perhaps it does make a lot of sense to engage private contractors, as it were, collection agencies, and I was a little surprised to learn from your testimony that, as a matter of policy, and I didn't realize this, that as a matter of policy legal action is not taken to collect these debts. Friendly persuasion is the limit of the action taken.

Mr. Lifson. The team member who investigated it said he did not find any instances where legal action was taken in the loan collection.

Mr. O'Hara. That is really rather a surprising comment. If you don't have recourse to legal action, you can't have a very effective collection program. You should at least have the threat of legal action in order to be very effective in collecting these debts.

Mr. Lifson. Well, the threat is there, but he just never found that action taken.

Mr. O'Hara. It is like the atomic or nuclear weapons game. You have to have a credible threat, not just a threat.

Mr. Erlenborn. Mr. Chairman, you are not suggesting we use one of those once in a while to make it credible?

Mr. O'Hara. No, I think our threats have to be believable.

Mr. Erlenborn. Despite my levity, I agree with you.

Mr. Lifson. We have had experience with commercial collection agencies. We feel that their policies would be much what the Government would want. We feel that the, again, the collection of the present indebtedness must be made considering the conditions under which the indebtedness was incurred, but we feel that individuals, by collection agencies, are put into really four categories, three of which apply.

If the individual has the wherewithal and has received real value from the product, you really ought to press him for payment.

We would recommend, even in the case of the present indebtedness where that condition prevails, to really go after him.

Second, this man has received real value but is unable to pay, there you use a different kind of pressure.

Third, the man is unable to pay and has not received any value. There you really do not expect to get much in the collection agencies and they do not exert much effort on it.

Mr. Erlenborn. Might I say at this point that there is a fourth category; that is, where the person has ability to pay but feels he has not gotten real value.

Mr. Lifson. Yes. In that one, you very strongly advise him that his credit is being damaged, you use a stronger method of persuasion than in the category where the man cannot pay and has not gotten anything of value anyway.

Mr. Erlenborn. I find this interesting, that you would put that question of value in the equation.

If the student is dealing with a bank and he is borrowing money, should the bank be in a position of a guarantor that the educational experience is going to be valuable?

Mr. Lifson. No, Congressman Erlenborn, I am not talking about a moral judgment of what the bank should do. I am talking about the practical operations of collection agencies. They operate on a very thin margin and must be very cost effective.

It is just not cost effective to pursue an instance where the man has not received anything of value to the extent that you can when a man has received something of value.

I am not just talking about education, but like in a credit card collection, if a man is disputing, say he makes a Master Charge purchase and he gets into a dispute with the store as to whether it worked or he wanted to return it, the amount of effort used on that is different from the amount of effort that the man used when he got the item and used it and then just didn't pay.

Mr. Erlenborn. If you are talking about a commercial transaction where a person is buying goods or services on credit, that would seem to me to have application, but let us leave this in the commercial field. If the person goes to a bank and borrows money and then purchases goods or services with the borrowed money, is that question of value in the equation at all when it comes to the bank trying to collect?

Mr. Lifson. No.

Mr. Erlenborn. All right. I think this is kind of an important point to make because we have two types of loans in this guaranteed student loan field. One is the loan made by the educational institution, because they often are lenders and I think there is a move to make them the lenders more and more often.

There, I think the student is encouraged to put this element of value into the equation. If the student feels he has not had a valuable educational experience he may feel he has no requirement to repay the institution.

Mr. Lifson. You are right.

Mr. Erlenborn. On the other hand, if the loan is made from the bank, it is in that commercial transaction category where the question of validity of the educational experience is really not involved in the obligation of the student to repay, would you agree?

Mr. LIFSON. I would agree that you are practically right, but I would tell you that in the minds of the students, these two concepts are completely intertwined.

Mr. ERLENBORN. You mean the student makes no differentiation. He feels the bank is somehow or other the guarantor of the validity of the educational experience?

Mr. LIFSON. No, he just feels if he receives something not of value to him, regardless of where he made the loan, he is not obligated to pay it.

Mr. ERLENBORN. Thank you, Mr. Chairman.

Mr. O'HARA. I think those two are very closely tied in, you have recommended that the schools not be lenders. You recommend not only that the school not be a lender but the school not be involved directly or indirectly with the loan and I think that you went into that collection problem about value received obviously when the school has been involved in some way.

Mr. LIFSON. Yes.

Mr. O'HARA. And the borrower says, well, they didn't give me the kind of program they promised me. Therefore, I should not have to repay.

This is somewhat like the fellow who enlists in the Army, and Mr. Erlenborn and I run across them all the time, and he discovered after he got in that the Army is not quite as fun a place as the recruiter represented it to be and he thinks then he should be released.

I guess, though, the two problems are clearly associated.

Mr. LIFSON. Excuse me. I hope you heard me say that the collection of future indebtedness should be treated differently from the collection of present indebtedness. If you do the things that we recommend now certainly you are going to change the conditions of the loan in the mind of the student, and you can be completely tough. You collect your internal revenue or social security and do everything in your power to collect it.

What we are suggesting is that you take into consideration the peculiar circumstances surrounding the incurrence of the indebtedness that occurred up until you make those changes. That is where I get into a concept of value received.

Mr. O'HARA. Let's go into this, though. We say, all right, commercial lenders will make the loans, not educational institutions. So, there is some reason for an educational institution to take on the overhead expenses of a loan, because, after all, they are getting themselves a student with it, where as, if the lender is a commercial institution, the only reason in the world for them taking on this loan is because they hope they are going to make money on it.

Now, some of them take it on as a public service, but if you are going to expand the program you will have to make it possible for them to make money.

Oh, you suggest it ought to be possible for them to make money, there ought to be a loan incentive rate or interest rate that is established according to a floating rate that will follow the prime rate in some way. You also say, eliminate the interest subsidy.

As you well know, banks do not make any loans without interest subsidies today, because they would much prefer getting that one check from Uncle Sam, even though it is late, then having to pursue those students and to try to collect from them.

So, there are no unsubsidized loans made for all practical purposes. But you are saying we should make all of the loans subsidized, but that Uncle Sam not pay interest on behalf of them and the bank has to go to chase every student borrower, it seems to me that is going to add a great deal to a already high administrative cost and in order to make it worthwhile for the banks we are really going to have to give them a very, very fat subsidy or else we are going to give them a very high interest rate on these loans, and then that gets into the question of whether the whole thing is worth it, does it not?

I mean, if, as an example, if we are going to have to, in order to make the thing worthwhile for the bank, if we are going to have to provide for let's say a 7-percent interest rate and a 7-percent subsidy rate, if they can get 12 or 14 percent on an automobile loan, and they have gotten security, they can go out and grab the automobile, why should they expect to get less on one of these student loans?

If we are going to do this, it is going to become a very expensive proposition, isn't it, if we go this route?

Mr. LIFSON. Well, you are making an uncollateralized loan. They certainly can go out and repossess the automobile. Repossession is expensive also. I would think banks would just as soon have the guarantee of the Government as they would to have the ability to go out and hot-wire a car and bring it back.

Mr. O'HARA. But, of course, they are giving the loan to a fellow with a job when they give the automobile loan.

Mr. LIFSON. Yes, but we are not asking the banks to assess the credit worthiness of the students. The Government is saying it is part of the subsidy, as part of the subsidy it will guarantee the credit of the loan so long as the bank follows certain procedures in initiating the loan.

What I am saying is the amount of money that will eventually be spent in paying claims would be reduced significantly more than the amount of money that the Government would have to pay to banks either in administrative costs or additional interest if you made the loans such that the banks had to collect the $8 or $10 a month.

What would happen then, it is like a payment on a credit card. As soon as the man misses one payment, that triggers some action.

Mr. O'HARA. That is right. In other words, the fellow does not get himself so deeply into debt before you find out he is slow paying.

Mr. LIFSON. That is right. If he makes $100 downpayment and pays $8 a month or whatever it would be interest payments—well, you miss 30 days on your BankAmericard and you hear about it and they recall your card.

I think the same, or the analog would apply in this situation. Just thinking of the administrative costs that the banks would incur, I feel that if you paralleled the requirements and the procedures to routine installment loan procedures, not credit cards, but something like that, and required the interest payment to be made monthly, that the savings that you could make in other administrative procedures would keep the total bank paperwork cost down to as little, well down to the figure that it now is, or less.

Mr. O'Hara. Well, I think that is what we have to look into. There are two approaches that you can take. One is to try to make the program attractive to lenders by making it financially attractive to them.

The other approach is you let the school assume some of the costs of the program, because after all they are getting the students out of it, and they are selling their wares and it is something like having an automobile dealer assume the part of the cost of administering it, you know, he signs up the buyer and he does some of the paperwork and he is happy to do it because he is selling an automobile.

Mr. Lifson. Yes.

Mr. O'Hara. These schools would be more or less happy to assume some of the costs because they are selling an education and filling up their classrooms and assuring their jobs and so forth.

So those are the two ways you can do it. But you pointed out some of the difficulties in involving institutions in the thing. You found some active misrepresentation and you found some refusals to pay on the basis of no value received.

Then, some of your recommendations get a little inconsistent because, then, you also say, maybe we ought to pay out the loan, disburse the funds to the school, and then let the school disburse them to the students. That is your number 12.

Mr. Lifson. What happens now is the school gets a check from the Government at the time, roughly the time that the student is enrolled. What we are suggesting is that those funds be disbursed perhaps on a quarterly basis, but as the student receives education.

Mr. O'Hara. I guess I had less apprehension. I thought if my son went to the bank to borrow money to go to school, that they would give him the money and he would then pay the school.

Mr. Lifson. Yes.

Mr. O'Hara. Well, what?

Mr. Lifson. What I am saying is, instead of paying it all down, let the student pay on a pro rata basis when these loans are involved.

Mr. O'Hara. All right; I understand.

Mr. Erlenborn. Will you yield?

Mr. O'Hara. Yes.

Mr. Erlenborn. Apparently the thrust is not whether it is sent to the school, but periodic disbursement and it has been discussed in hearings before the committee before and banks made the point that it adds to their administrative volume and they would prefer not to.

Mr. Lifson. Indeed it does add to their administrative costs and unless you take some other measures I am convinced they would prefer not to make periodic disbursements, but their preference should be seen in light of the fact that they are not bearing the defaults.

I cannot emphasize too much how large we think that default is going to be and our deliberations were very strong, in effect, in doing some other things that might be more administratively expensive in order to reduce that default probability.

Mr. O'Hara. I am sorry; go ahead.

Mr. Erlenborn. I was just going to ask, have you analyzed where the defaults occur? Are they widespread or in certain types of institutions?

Mr. Lifson. We did not.

Mr. ERLENBORN. I think we have had some evidence before this committee on that.

Mr. LIFSON. We recommended that report cards be published about delinquencies and defaults on schools and lending institutions.

Mr. ERLENBORN. I think we are going to get some interesting information, and have had in the past, about differences among vocational educational institutions, proprietary institutions, and certain city institutions for primarily the disadvantaged. The latter category, according to information that has been made available to this committee, is where the greatest level of default exists. In fact, the central YMCA college in Chicago, institutions like that, have a very, very high rate of defaults.

Mr. O'HARA. I know you suggest, too, a possible system of differential insurance fee. The insurance fee, of course, is paid by the borrower, so one of the questions obviously the borrower will be asked is, "What school are you going to attend and have you been accepted or where will you be admitted?" and then you look at your chart and if it is Subway Tech. and they have a very high default rate, say, among their students, you say, "All right, fine, your insurance fee is 8 percent or something like that."

And if it is some other school where the default rate is much lower, you would say, "Well, your insurance fee is one-tenth of 1 percent."

Mr. LIFSON. Yes; may I comment on your comment about the schools paying some of the administrative costs?

Mr. O'HARA. Yes.

Mr. LIFSON. We would agree with that. The economics of, at least the schools we know about, is that there is in the neighborhood of 30 or 35 percent marginal profitability on tuitions. That is, out of every $1,000 received there is maybe $300 or $350 that goes to pay fixed overhead and hopefully generates a profit.

Mr. O'HARA. Yes.

Mr. LIFSON. We do not know of a practical way to do this, but if it could be arranged for the schools to charge no different tuition, whether or not the students were enrolled in the loan program, but either pay the Government or the bank, you know, like 3 percent of the tuition for handling the student loan program, we would like that and would recommend it.

The marginal profitability, the profitability of the schools that have taken advantage, and I use that term advisedly, of this program has been tremendous. It is not until the funds dried up and they realized the cash flow situation was so desperate they realized the trap they had gotten into. If the funds are available and schools take advantage by enrolling many more students than they otherwise would, it seems reasonable to us for them to pay part of the administrative fees, that they don't pass it on to students who are specially in the program. But we say do not try to accomplish it by allowing schools to be lenders, because if you do it will be passed on to all students and these kinds of students in particular.

The schools are not set up to be lenders and not set up to be collectors.

It would inure to the benefit of these schools that had financial strength rather than small independent schools. We have documented in our report why we do not recommend it.

But to accomplish getting schools to bear part of the administrative costs, if a practical way of doing it could be found, we recommend it.

Mr. O'Hara. Of course, if it is a public institution it might be the taxpayer that is paying the administrative cost or part of the administrative cost.

I am fascinated by the suggestion that you make, your No. 11, where you are saying that the Government in effect ought to keep a list of debt collection agencies, an approved list, as it were.

Mr. Lifson. Not debt collection agencies, but contract loan processors.

There is a difference. Do you understand what a contract loan processor is?

Mr. O'Hara. Yes, but in terms of due diligence, in other words, an enforcement, in other words, the contract loan processor, in effect, guarantees that he will use due diligence.

Somehow or other you have Uncle Sam say to the lender, look, if you use one of these approved processes, you are not going to have any trouble with us on establishing due diligence.

Mr. Lifson. Right. We recommend that.

Now, you see, we say that due diligence should be operationally defined. I believe that has been done, since we gave Commissioner Ottina this report, that if you follow these steps, that is due diligence.

Mr. O'Hara. You know, it requires a little imagination to really be duly diligent and I am a little leery about defining that too precisely. I am afraid that maybe then people could just go through the motions if it is precisely defined.

Mr. Lifson. That is true. That is one of the disadvantages, but a greater disadvantage is that you are not going to get the funds to become available unless you give them an operational definition of "What due diligence in collections".

There is one collection agency, a bank in Minneapolis that does guarantee due diligence. They have set up a procedure that, you know, so many phone calls and letters and keeping track of a student and things like that, and my guess is they have talked with the regional administrator of OE and he said, "Yes, that looks like due diligence to me."

Up until recently, you could not get anybody in HEW to say, "Yes, indeed, that is due diligence."

Mr. O'Hara. Maybe instead of precisely defining "due diligence," you could take a look at the way some of these processors work, at their track records, and if they have darn good track records, you say, "Any claim that has been processed by them, we accept." And if they have bad track records, you say, "We don't accept." Because I do think due diligence is different in different circumstances.

For instance, if you are going after someone who is unemployed and broke—if you have good reasons to believe that debtor A is uncollectable whereas you have good reason to believe that debtor B is collectable, I would say due diligence is a different thing in those two cases, and I do not know how you would write the regulations to say that.

Well, in any event, those are some of the problems with it.

Mr. LIFSON. Excuse me. I might say with regard to these contract processors, I think that their costs amount, and this is in the report, I think it is in the neighborhood of 2½ to 3 percent of outstandings, and maybe less than that, whereas the banks think it costs them around 4 or 5 percent, so the promulgation of this knowledge to contract processors I think would have the effect of making the loan more attractive to banks, I think.

Mr. O'HARA. I also like your suggestion that we somehow or other have to get the people that have been abusing the program out of the program, the promoter, the fly-by-night operators who somehow or other are accounting for a very, very large share of the defaults and the delinquencies and so forth, because of the way they promoted the loan and you suggested, first, that no one be permitted to promote a loan, and, second, that schools that have a very bad record it might be that you say, well, the loans won't be available. They won't be among the approved institutions for which loans are available.

I think we do have to look into that sort of thing.

Mr. LIFSON. Yes, the second one we definitely stated. I do not recall saying you could prohibit anyone from promoting a loan.

Mr. O'HARA. Well, you say, "directly or indirectly involved."

Mr. LIFSON. "Involved in lending," right, but we certainly did not mean to characterize any particular kinds of schools which would be promoters of loans.

Mr. O'HARA. All right.

We thank you very much, Mr. Lifson. I am sure when we have time to go through and study and think about the report of your task force, when we do we will find it very useful and I want you to communicate our appreciations to the members of your task force and to the Young Presidents' Organization.

Mr. LIFSON. Thank you. The names and addresses and telephone numbers of the team members are all in the report and I think you can perceive which team member addressed, because of his special background, any part of the problem and they would be certainly glad to hear from you.

[The report referred to follows:]

YPO TASK FORCE ON GUARANTEED STUDENT LOAN PROGRAM

I. SUMMARY OF PROBLEMS AND RECOMMENDATIONS

Problems were perceived in six interrelated categories, and solutions were proposed addressing these problems.

The problems involved in the collection of the present debt were addressed first because these problems will survive any decisions about the ongoing program. The potential size and the nature of the defaulted debt warrants that OE:

1. Use commercial collection agencies for present debt. Many students incurred the present debt under conditions of pressure, misrepresentation, and ignorance; therefore,

2. For the present debt, the degree of collection toughness must be appropriate to the circumstances of debt incurrence, value received, and repayment ability. Some schools have repurchased their own defaulted paper, and there is concern about the resultant large amount of claims "overhanging" the government guarantee.

3. A one-year deadline should be set for defaulted claims on repurchased paper. The problems involved in the lack of program definition are discussed next, because they pervade the other issues of funding, collections, and integrity straining.

Resolutions of the characteristics and size of the student target and the resultant required funding and subsidy must be done on an informed basis, and thus require a:

4. Survey of: Under-education caused by financial reasons, the awareness and perception of loan access, the elasticity of demand for loans, and the characteristics of students who would use loans. The resolution of the allocation of funds and subsidy, and the resultant definition of student target, must be done legislatively. It requires that action be taken to:

5. Legislate the target and the funds needed to serve that target. Assure that administrative actions do not effect a change in the target. A corollary recommendation is:

6. Restate OE goals in terms of the legislated target—the enhancement of the education of that target. To realign the program to the appropriate target of the moderate income student requiring a loan of convenience:

7. Establish the program as a loan program, separate from the direct grant program.

8. Eliminate needs analysis test. From the legislative action, a determination of an amount of subsidy in terms of a differential interest rate (lower than government cost) paid by the debtor will be made. That and the government guarantee should be the only elements of grants or subsidies in the program;

9. Eliminate loans with interest waived. To prevent the program from shifting enrollments away from financially smaller schools:

10. Prevent schools from lending directly or indirectly. Administrative problems are discussed next, because they are significant in their impact on funds availability and on the practical accessibility of the program. Legislating the target and the funds for serving the target should include provision for OE budget to accomplish these administrative recommendations.

11. Study the feasibility of paralleling required procedures with installment loan procedures.

12. Perform a paper work simplification study on the requirements of schools, students, lenders, and OE internals.

13. OE simplify, stabilize, and make uniform throughout the Agency its dealing with and requirements of banks and schools.

14. OE systematize its procedures and requirements so as to reduce delay in loan approvals and claims payments.

15. OE provide up-to-date manuals and prompt, clear and uniform responses to questions and interpretation of policies

16. OE define, in operation terms, "due diligence" in collections and loan initiation procedures.

17. Require, and provide training for, GSLP specialists at each lender.

18. Consider a means of establishing a blanket guarantee to obviate the submission of each individual loan.

19. Promulgate knowledge of contract processors.

The problem of funds availability centers on the unattractiveness of these loans to banks; low effective yield, high processing costs, uncertainty about the government's guarantee, illiquidity, and the indirect expense of the cumbersome, confusing dealings the banks experience with HEW.

The solution of some of the administrative problems will affect funds availability by directly increasing the profitability of these loans. The administrative improvements and clear legislation of the target and the funds to serve the target will significantly reduce the indirect unattractiveness of these loans to the banks.

Several of the recommendations are aimed at improving the effective yield of these loans to a level that at least allows the banks to break even on them

20. Remove appearances or arbitrariness in effective yield calculation.

21. Request bank regulatory authorities to consider these loans "guaranteed" in calculations of liquidity and capital adequacy.

22. Effect a mechanism that permits the banks to borrow on these loans at treasury bill rates.

23. Alternatively, establish yield paid to banks at average federal funds rate plus 3%.

24. Alternatively, permit banks to borrow, using these loans as collateral, from the social security funds at treasury bill rate; and to sell these loans to the social security department at the initiation of the payout period.

Collection of debt incurred from now on is treated as a problem different from the collection of the present debt because of the intention to change the attitudes of students concerning the nature of indebtedness. The prevention of schools from lending activities, and the definition of the program will also favorably change the collection problem.

Student attitude will be changed by several recommendations:

25. A down payment and routine monthly interest payment should be required.

26. The student should reaffirm, at enrollment, his understanding of the loan contract and should waive legal defense relating to infancy, bankruptcy, garnishment, and priority claims.

27. The student should have a social security number and permit it to be used for tracing.

28. An exit interview should be required.

29. Direct communication between OE and the student should be established.

30. The grace period should be shortened.

Several suggestions affect the posture of the schools.

31. Disburse funds to schools in proportion to education received.

32. Consider requiring schools to partially cosign the loan.

33. Consider fining the schools if they do not notify the lender when education is terminated.

34. Consider disqualifying home study schools from the program.

35. Publish a "report card", on both schools and lenders, relative to drop outs, delinquencies, and defaults.

36. Establish bonuses and penalties, for lenders and schools, based on default rates.

To eliminate the accumulation of future overhanging defaults such as exist in the present debt.

37. Establish a one year deadline between a defined knowledge of incidence of default and submission of claim.

There was no evidence of either defined policy concerning, or functional knowledge of, appropriate collection procedures within OE. The recommendation is:

38. OE have a study performed to systematize its portion of the collection procedures.

Requirements of the collection process may prevent civil service from hiring successful collectors.

39. OE should consider contracting the ongoing collection effort.

The loan program appears to be a form of "front end" social security. It is the use of funds at a career's beginning rather than end, but the purpose appears the same. If this logic be followed,

40. Social security will buy the paper from the banks at the payout period and collect it by incrementing payroll deductions.

The program is straining and the integrity of students, schools and lenders, and the perceived integrity of the government is also suffering. Specific suggestions to reduce the strain on integrity have been incorporated in the suggestions relative to the other problems. Of particular significance are those concerning the change in a student's attitude by acknowledging the loan contract, making a down payment, and making monthly interest payments; the definition, legislation, and funding of the target; and the modifications and clarifications required of OE.

II. Introduction

This report is submitted in response to a request by the Honorable John Ottina, U.S. Commissioner of Education, to the Leadership Activities Committee of the Young Presidents' Organization. Three numbered copies are submitted directly to the Commissioner. Each team member also has a copy.

A. ASSIGNMENT AND PROCEDURE

The Commissioner's charge was to:

Appraise him of the views regarding the Student Loan Program, as held by lending institutions, schools, and borrowers.

To discern the problems as related to these views, that prevent or reduce the effectiveness of the program.

To recommend solutions.

The team avoided analysis of OE internal problems, it did not consider state programs, and it did not directly interview any students.

The team met and was briefed by OE Staff in Washington. The team members then met with and corresponded with their assigned groups of banks and schools. Several progress meetings were held, some of which were attended by OE Staff.

B. YOUNG PRESIDENTS' ORGANIZATION

The Young Presidents' Organization was founded in 1950 as an educational association for chief executives who became presidents of their companies before age 40.

With a membership of 2,700 in 45 countries, YPO is an international organization. There are forty YPO chapters in the United States, three in Europe, five in Canada, and one each in Japan, Mexico, Korea, Australia, and the Caribbean.

Young Presidents head companies in nearly every kind of business activity—manufacturing, finance, housing, transportation, communications, foods, textiles, construction, and many technological and management services. Many hold advanced degrees in Law, Engineering, Business, Economics and Science.

Other than age, the principal criterion for membership is number of employees. In YPO companies this number ranges from the minimum of 50 up to 40,000. The gross sales criteria for membership vary for different types of business. Presently, sales range from $2.0 million to over $1 billion. Members are required to retire from YPO at age 49.

The educational and idea exchange programs of YPO offer young chief executives a broad array of business and general topics. Using the seminar concept as the basic pedagogical technique, YPOers are exposed to noted authorities in the fields of business, public affairs, the arts, and personal development.

The members, therefore, form an extraordinary and unique reservoir of professional managers who combine knowledge of latest theory with an understanding of practical implementation.

C. LEADERSHIP ACTIVITIES COMMITTEE (LAC)

Consistent with the purpose of YPO—"To help its members become better presidents through education and idea exchange"—Leadership Activities focuses on the relationship between business and the society within which it operates. Recognizing that problems of the society effect the business environment, it is, therefore, good business and enlightened management to understand this relationship and become involved. Accordingly, LAC provides an opportunity for the YPOer who wishes to learn how he can most effectively use his time, talents and resources in understanding and solving the problems of society.

LAC is predicated upon "individual action"—YPOers who become involved in community activities do so as individual businessmen, rather than under the auspices of YPO. Therefore, LAC may support a wide variety of activities without becoming publicly involved in programs that may be controversial, even among its own membership.

D. DISCLAIMER

It must be emphasized that the views expressed herein are those of the individuals comprising the Task Force; those views are neither supported nor opposed by the Young Presidents' Organization, since YPO is an international organization which eschews any position on any public issue.

E. TEAM MEMBERS

K. A. Lifson, Team Leader, is the chairman of Lifson, Wilson, Ferguson & Winick, Inc., the general management consulting firm he founded in 1954. The practice of the firm inclues consumer research, operations analysis, personnel psychology, information management and corporate strategy. The firm's clients include many major regional banks and the firm has worked for educational institutions. Mr. Lifson has an undergraduate engineering degree, an MBA, and a Ph. D. in industrial psychology. Office: 7616 LBJ Freeway, Suite 505, Dallas, Texas 75240, (214) 23-5561. Home: 10350 Strait Lane, Dallas, Texas 75229, (214) 691-6654.

James F. Coleman is chairman of the board and president of Coleman American Companies, Inc. Coleman American is a career education company providing products and services to adults in the United States and throughout the world. Mr. Coleman is chairman of the board of Central State Bank of Hutchinson, Kansas, and president of Central Kansas Bankshares, Inc. He attended the University of Kansas at Lawrence where he majored in business administration. Office: 3435 Broadway, Kansas City, Missouri 64111; (816) 756-0400. Home: 310 West 19th Street, Hutchinson, Kansas 67501, (316) 662-0104.

B. B. Elkins is president of Elkins Institute, one of the largest private vocational school chains in the United States. The school's curricula includes various electronics courses, professional photography, radio-broadcasting, drafting, and other subjects. Mr. Elkins has a bachelor degree in electrical engineering. He is an active member of the National Association of Trade and Technical Schools, the approved accrediting agency for private trade and technical schools. In his executive capacity at Elkins Institute, he has administered the government loan program as a lender. He has worked closely with banks, finance companies, and other financial agencies in securing federally insured student loans for many Elkins Institute students. Office: 2727 Inwood Road, Dallas, Texas 75235, (214) 357-4001. Home: 5320 Pebblebrook, Dallas, Texas 75229, (214) 691-5568.

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F. REPORT ORGANIZATION

The report is organized in response to the Commissioner's three-part assignment. Chapters III through VIII are the reports of the views of banks and schools; Chapters IX through XIV are the problems and solutions as seen by the team. Some of the narratives may appear repetitious, but all of the viewpoints are important and were included. Forty specific recommendations are summarized in Chapter I. Two of the team members submitted systemic recommendations and these are included in appendices.

III. Views of the Banks

Several members of the Task Force had discussions and correspondence with officers representing banks with which they were personally familiar. The comments are representative of the attitudes of both policy level and administration level officers from banks across the country in the asset range of $100,000,000 to billions of dollars, with most of the banks ranging in the largest 100 in the country. Figure A shows the location of these banks. No contacts were made with savings and loan institutions or credit unions.

While over 60 banks were contacted, certain tables are included that represent 42 responses which were in a format that could be tabulated.

A. REASONS FOR BEING IN THE PROGRAM

Banks originally entered the program feeling that it was an additional way they could serve their market (both the needs of their present customers and in the attraction of potential customers). There was also a considerable feeling that the use of assets in this way was in the public interest. They went into the program aware that current profitability was not the rationale. Table 1 shows the advantages that banks spontaneously mentioned.

TABLE 1.—REASONS FOR BEING IN THE PROGRAM

	Advantageous	Disadvantageous
Potential customers	16	5
Public good	13	0
Serve present customers	11	0
Image	5	2
Deposits of schools	3	1
Profit	2	20

The "disadvantageous" figures in Table 1 indicate where banks feel that these advantages they sought have not come about. The "disadvantageous" 20 for the profit motive represents the unsolicited comments of 20 of the banks that these loans are unprofitable.

A typical comment about reasons for entering the program is:

"We at the bank feel that the student loan program serves two important functions; that of improved customer relations with our present customers and a source of potential future customers. Those institutions supporting this program also provide for a skilled work force and a continuation of the economy."

The negative five responses under potential customers are typified by the following comments:

"I am not convinced that there is any particular advantage to any lending institution in making these loans. It has been said that these loans represent the 'seed corn of the future' but, given the mobility of young people in this day and age, there is little evidence to this point that graduates have returned to do business with the banks that handled student loans for them. There is, I suppose, some public relations benefit but, generally, the activity of banks in the area has been so low-key that this benefit is of little consequence."

"At the time we participated in this program, we required in account be opened, however, the majority of the accounts were very low balances and soon closed."

With regard to the image factor the following comment is typical:

"Maintain reputation in the community as a civic minded organization. Potential of developing new business with the customers of tomorrow."

Some of the comments were more the avoidance of a negative image, rather than the creation of a favorable one.

B. PLANS FOR ONGOING PROGRAM PARTICIPATION

Very few institutions are aggressively in the program. Most of them are in it on a defensive basis.

Table 2 shows the comments about the intentions of the 23 banks who volunteered what they intend to do with the program.

The five who said "no limit" are not aggressively pursuing the program; they just have not set a definite policy. The synthesis of their comments is as follows:

We entered the program partially on the basis of improving services to our market and partially for the good of the public. We are dubious about the advantages in the market place. We know the loans are unprofitable and damage our liquidity; and we feel that as long as we are doing this for the good of the public (at the strong request of the government) that we are enduring uncalled-for costs and irritation because of the way the government is administering the program: inordinate amount of paper work; actual delay and perceived procrastination in payment of claims: lack of definition of due diligence in collections;

rumored requirement for "due diligence" in lending (if we indeed exercise it we would not make any loans of this kind); confusion within the Office of Education as to regulations; and low, uncertain and arbitrary yield.

This is a direct quote:

"Many of the banks would participate in the program or increase their participation at no profit, in the interest of the public good, if only the government would cooperate. The lack of cooperation is experienced in frustration in poor coordination and communication from HEW and a perceived lack of coordination of HEW and other agencies and frustration by the government's unwillingness to pay off its guarantee."

C. HANDLING COSTS

Nine of the banks felt they knew their handling costs. Table 3 shows them in terms of percentage of outstandings.

TABLE 2.—*Planned addition to GSLP portfolio*

	Number of banks
No definite limit	5
Maintain present level	6
Present customers only	5
No more	7

TABLE 3.—*Handling cost estimates*

Cost of percent of outstanding loan:	*Number of banks*
1 to 1.9	2
2 to 2.9	1
3 to 3.9	1
4 to 4.9	5

Several banks will administer loans for other lenders on a contractual basis. The fee schedules are approximately summarized below.

	Setup	Per month through grace period	Per month, payout period
Bank "A"	$3.00	$0.85	$1.46
Bank "B"	1.35	[1] .40	[1] 1.20
Bank "C"	1.80	.60	1.50

[1] Extra charges for queries and collection efforts.

Bank "A" guarantees due diligence. The additional fees charged by Bank "B" would appear to make their contract more expensive than the other two.

We have translated the monthly fee during the payout period to a percentage of outstandings by assuming that the average loan is $1100 and that in onehalf of the instances several loans are consolidated for a student. The percentage of annual fees to outstandings will be between 2 and 2¼ percent.

We have attempted to translate the dormant charges and the contract set-up charge and the set-up charge the bank incurs into a percentage of outstandings during the dormant period, Using a figure of $30 of in-bank costs and $1100 per loan, this works out to 2½ to 2¾ percent.

Comparing these figures to those reported in Table 3, it is evident that the banks either have a misperception on the high side or are attributing a great deal of expense to the general "dealings with the government" involved in these loans; review of needs analysis, reporting, arguing about claims, training personnel, etc.

While Table 3 only reports on nine banks who offered specific figures, many other comments can be summarized to the effect that these loans are two or three times more expensive to administer than regular installment loans.

As a matter of comparison, many large banks administer installment loans for other banks on the basis of a set-up charge of $.85 to $1.00 and a monthly fee of $.20 to $.30. These charges do not include any non-computerized collection effort. Incidentally, the cost per collection effort (other than a routine completely generated by a computer), for example, a telephone call or any kind of investigation, has a minimal cost of about $6.00 per instance.

D. YIELD REQUIRED

Banks were asked to state the yield required to bring these loans in line with routinely available lending opportunities. Table 4 shows a tabulation of 20 banks who responded in quantitative terms.

The present bonus arrangement on the yield is regarded by the banks as unsatisfactory; the limit is too low, they do not like to deal with an uncertain yield, and they do not believe the bonus is set on an objective basis.

TABLE 4.—*Required yield for this type loan*

Percent yield:	*Number of banks*
10 to 11	5
11 to 12	4
12 to 13	8
13 to 14	0
14 to 15	1
15 to 16	0
16 to 17	0
17 to 18	2

E. BANKS' PROBLEMS

Table 5 is a tabulation of the unsolicited comments about problems that the banks were having.

With regard to Table 5, much of the paper work seems meaningless and useless to the banks; while the paper work that would be useful to them, namely communication from the schools regarding the borrower's termination, is not being provided, creating inordinate problems in finding the delinquent borrower. This problem is accentuated by the mobility of students and the delay in knowing that they have become delinquent. The fact that claims payment is slow has[1] meant that effective yield is reduced even below the nominal yield because of the use of assets in a non-earning manner. The feeling about "not all are taking their share" represents acknowledgement that they are doing this for the public good and are willing to do it for their own customers, but that they experience resentment when the customers of other lending institutions in their community demand that they be granted these loans. This feeling is quite strong.

Another problem banks experience involves the assignment of someone to administer these loans. Generally, this assignment is given to a very junior person or a management trainee who remains in the positions through one season and a great deal of training and re-training must take place each year.

TABLE 5.—***Problems of banks***

Problem categories:	*Number of banks spontaneously mentioning*
Paperwork	15
Locating students	10
Claims payment slow	9
Not all taking share	8
Cost of collection	5
Schools confused	3
Length of commitment	2

Another problem that was mentioned in conjunction with collections, paper work, and claims payment, was the definition of "due diligence." This problem deserves especial mention, as the feeling is very strong that the Office of Education *must* define, operationally, "due diligence in collecting."

If the lack of yield and administrative problems were not enough, the problem engendered by the lack of definition of "due diligence" and the lack of faith in the government insurance itself, which partially derives from this lack of definition, would be enough to stop us from making a federally insured loan. We have consistently turned in what we considered "guaranteed" loans and have gotten every excuse in the world including the lack of due diligence in lending, the lack of due diligence in collecting, the lack of proper stamp, the lack of having the guarantee placed on it before the student got out of class, and every other excuse available. Many times the problem appeared to be that the government was out of money. This doesn't alleviate the problem that there was no interest paid while the guarantee was bouncing around. The insurance gets lower credibility after this type of treatment. Since the loan is not a "credit" loan and the guarantee cannot be specifically trusted and the loan has a much lower yield than any other type, it is simply totally unattractive to banks.

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[1] Although after March of 1973 interest is paid on delinquent or defaulted loans by the government, few loans made after this time have gone into payout status and, therefore, the bank has not been able to perceive any charges in the regulations.

Schools that have sources of financial strength will accept the making of these loans because the marginal profitability of the education which these loans enable them to sell is sufficient to be worth enduring this kind of grief, but banks do not have this incentive.

F. BANKS' VIEWS OF STUDENTS

The banks offered some comments about the attitudes of students. These are tabulated as Table 6.

Some typical comments are:

"The attitude of students, parents, and in some instances teachers, seems to be that these loans are a legislative right rather than a privilege."

TABLE 6.—*Banks comments about students*

Category:	*No. of banks spontaneously mentioning*
Good comments	5
"Demanding"	6
Naive regarding repayment	8
Bankruptcy taking	2
Funds misused	1

"It seems that the loan is seldom explained to the student. The student's obligation often is not mentioned until the repayment period begins—nine months after they leave school. Student loans are usually the borrowers' first type of credit, and they do not realize the importance of their participation in matters such as notifying the lender of change of address, contacting the lender before grace period ends to plan repayment procedures, and notifying the lender of deferment status. Lack of this information slows up the repayment process and, in some cases, results in default—important matters in the eyes of a lender."

"It has been our unfortunate experience that many (I would say most) students seeking these loans look upon them as a matter of right; consequently, there are many experiences of resentment when a loan has to be turned down."

"Our contacts with students have always been good. Their attitude sometimes has been rather demanding, but this has not been a problem. My concern is the attitude that many take at payout time, or when things get tough. We see more and more a lack of concern on their part regarding repayment to the point where many will not even return letters or phone calls. I think both the banks and schools need to emphasize more the fact that these are loans, not grants."

"Most of the sudents we have dealt with are very sincere in their desire to get a higher education. Because of this, their attitudes are very good and the risk involved in granting them a loan is minimized."

"Confusion seems to be the biggest problem. The school is confused about how to administer the program; the students are confused about what they can get under the program; and many times the banks are confused about how to apply their ground rules to the program. Specifically, many schools use the same analysis that they use on their grants-in-aid program. Based on this program they make recommendations to the financial institution which in turn does not want to override the school. Also, the financial institution is reluctant to split loans, in other words, making part of the loan subject to the student loan program and a second portion of the loan a personal loan. I am sure there are many other complicated administrative problems but time and space do not permit us to elaborate on them in detail."

IV. THE SCHOOLS AS LENDERS

Although some schools, with sizeable financial resources, have used their own funds so as to become lenders under the GSLP program, the consensus of opinion of school administrators is that schools should not be lenders.

"The only school that can exist in this environment are those who have parent corporations that are large in size and therefore can wield a big enough stick to cause banks to lend enough money to bridge the gap, and this causes an extremely unfair situation for smaller schools or even large schools who do not have a parent corporation."

"Schools are simply not banks and there is no way to make them banks. They do not have the collection procedures, they do not have the money to lend out, and they do not have the expertise necessary to perform the function of a bank or other lending type institution. The major problem comes when a school overextends itself in the lending field and then cannot 'bridge the gap' until the cash flow begins to come in. Compound this with the lack of a valid guarantee [reference is made to the perceived unwillingness of the government to honor claims, the vagueness about due diligence in collections, and the rumored requirement for documentation of due diligence lending] and the fact that as schools grow the gap gets bigger and schools that are lenders are doomed for failure."

A. PROBLEMS

Some of the other problems of lending institutions are accentuated when the schools become lenders (particularly the smaller, independent schools, both trade and technical and smaller colleges):

The paper work
The need for trained personnel
The low yield
The confused and conflicting interpretations from HEW
The lack of current procedural manuals
The delay in receiving payment on claims
The cash flow situation

B. MAGNIFIED EFFECT ON SMALLER SCHOOLS

The cash flow situation particularly hurts the smaller independent schools and colleges. It is difficult for them to use the paper as collateral because of the growing incredulousness about the government guaranty and because there is no legal way for the school to market the paper at a discount. In instances where schools have used this paper as collateral, their balance sheets have been degraded by the offset of long maturity assets with short term indebtedness.

The effect is tha the program has become a windfall for those schools who either, through their own assets, or through the assets of sister corporations, can fund the loans. This acts to the detriment of schools who are not in this situation: they are caught between the trap of trying to fund the loans and the competition from those schools who can do so.

C. WHOLESALE PAPER: INDIRECT LENDING

More will be said about the effect of the "straining of integrity" but it should be mentioned here that the integrity of both the banks and the schools affiliated with large corporations is strained by the persuasive efforts of the corporation in getting the banks to accept this paper. Another straining of integrity occurs when the schools are the lenders since schools, particularly home study schools, are tempted to make early examinations so easy that the students pass and payments are forthcoming.

It is apparent that the incentives operating to become a lender are quite different for schools than they are for banks. The schools can accept a low yield/high risk loan because of the marginal profitability represented by the tuition. What occurs, of course, is that the student pays a higher tuition and the government is subsidizing the profitability of the school rather than the education of the student. It is, therefore, the conclusion that schools should not be leaders in this program.

Here is a quote from one respected president of a proprietary school with large financial resources:

"The major effect on schools, of course, is its financial impact. Short-run, the program is a financial shot in the arm. But unless very prudently handled, it is a dangerous means of financing. There is an obvious negative impact in the marketplace when, because of pro-rata requirements, the school must grossly inflate its per lesson prices, downgrade its educational materials, or a combination of these. The obvious eventual effect on schools is to price themselves out of the market or so deteriorate their educational programs as to make them educationally worthless. Unfortunately, those of us who choose to ignore FISL and its implications for the long range good of the industry may wind up being tarred with the same brush as will be those institutions whose default rates or poor quality of program eventually put them out of business."

V. Views of Colleges and Universities

Serious reservations and concerns about the operation of the Federal Government's Guaranteed Student Loan Program were expressed by virtually all of the senior collegiate financial aid officers interviewed in the course of the present study. The areas of concern centered on the basic philosophy of the program as well as on the mechanics of operation.

Participating in the confidential, in-depth interviews were directors and senior staff of a wide variety of four year colleges and universities ranging from the largest to the smallest in the State of New York and in New Jersey; attitudes of several New York metropolitan area independent junior colleges were also sampled.

A. NEEDS ANALYSIS

Although all respondents were, of course, fully committed to the concept of massive federal aid to post-secondary students, the consensus felt conceptually that, on the one hand, grants rather than loans were realistically required by the lowest income segment, while on the other, that the current Needs Analysis was effectively screening out from the loan program a great many credit-worthy, middle income students who badly need a "loan of convenience" to permit them to pursue their studies. Smaller schools in particular felt forced to actively recruit poorer and less capable students since those students qualified for larger aid packages. Some schools felt that the quality of education at their institution had been diminished by the effects of GSLP and the needs test.

B. EFFECT ON INSTITUTIONS

Independent junior colleges in particular felt the impact of the "needs analysis" requirement. Middle class students who have historically formed the "market" for both independent junior colleges and smaller four year liberal arts colleges experienced difficulty in obtaining federally insured student loans. All too frequently, it was felt, these students turned to large and inexpensive public institutions (both state supported colleges and community colleges) for their education. The GSLP was seen as an additional force generating an ever larger market share for public education at the expense of small, and often more diverse, institutions.

Thus, while OE loan policy allocates $10 of student assistance for every $1 of institutional support, the actual policy outcome of the program is effectively institutionally-based because economic factors do not permit independent or nonaffiliated schools (colleges, junior colleges, trade and technical schools, and business and secretarial schools) access to funds. Smaller educational institutions are squeezed out by factors which do not affect larger economic institutions.

C. PROBLEMS

From an operational standpoint several major difficulties in the GSLP were observed:

(1) The application and processing machinery was unnecessarily cumbersome, especially when compared with that of other federal programs such as NDSL.

(2) Repayment collection efforts were inadequate.

(3) The accrediting and control procedures of participating schools (especially proprietary ones) were in need of tightening.

(8) Frequent changes in OE directives an doperating procedures caused widespread confusion in the administration of the program. Ambiguities of federal definitions (regarding veterans, independent versus dependent students, etc.) added to this confusion.

(5) Lack of trained financial aid officers especially among the smaller schools made administration of federal loan packages extremely difficult.

(6) Schools experienced difficulties in planning since they could not predict with any accuracy the total anticipated aid package for students. Contradictory requirements among the major student aid programs often made this packaging nearly impossible.

VI. Views of Business and Secretarial Proprietary Schools

The views and attitudes of the post-secondary business and secretarial proprietary schools are based upon formal and informal conversations with owners, financial aid officers, and administrators of a number of proprietary businesses or secretarial educational institutions.

These views appear to be determined largely by circumstances of ownership of the school: (A) by a larger economic institution or (B) by individual entrepreneurs and managers who do not have access to substantial financial strength. Section C of this chapter discusses problems the two groups have in common, and Section D of this chapter relates the suggested solutions made by both groups.

As in the preceeding chapter (colleges and universities), is is clear that despite the clear intent of OE policy to aid students, not schools, the actual outcome of the GSLP is that the larger business and secretarial schools (those with a "parent" or "sister" corporation) find easy access to funds while the smaller independent schools lacking in large financial reserves are effectively denied benefit of GSLP.

A. VIEWS OF FINANCIALLY STRONG BUSINESS AND SECRETARIAL PROPRIETARY SCHOOLS

The financially strong educational institutions generally were very pleased with the existence of the GSLP program, although they had a substantial number of comments concerning problems and deficiencies with the program.

It must be pointed out that those schools whose students made use of the GSLP program generally used it very actively and were able to help their students obtain these loans in large quantities and for substantial amounts. Many of these schools had about 50% of their student population benefiting from the GSLP program. None of them indicated any difficulty in obtaining funds from lending institutions. In all cases the school or another subsidiary or division of the larger parent concern was an approved lender. Thus, the approval and the granting of a loan as far as the school and the lender were concerned was a relatively simple matter. Money was no object and thus if a student was accepted by the Admissions Office, or signed up by a salesman, the student's financial situation would not be a bar to the payment of tuition. The larger economic institution of which the school was a part was able to turn these student loans into cash because of their excellent relationships with banks who would buy these loans from the approved initial lender, at face amount as required by law. Thus, the schools obtained excellent cash flow without any credit risk being borne in the financing of the loan granted to students to pay for their education.

Of course, the statistics on the tremendous increase in the amount of use of the GSLP program by proprietary schools indicates that these schools have found this program in general to be of great use. Even in a state like New York, which has a very excellent guaranteed student loan program patterned after, and in many respects identical with, the GSLP program, these secretarial and business schools owned by large economic entities made little or no use of the local state program. The reasons for this appear to be two-fold: First is that frequently the schools owned by larger entities are scattered in a number of states, and as a result it is more convenient for the approved lending division of the larger entity to simply use the GSLP program for the students of all the schools and thus keep its paper work to a minimum, as opposed to having to contend with the various paper work which would be required if all of the local state programs of guaranteed student loans were encouraged. The second reason is that certain local state guaranteed student loan programs provide penalties to the schools based upon the amount of defaults in the student loan paper. Of course, in certain circumstances the schools would encourage their students to obtain non-GSLP loans but these circumstances are relatively rare, such as in the case of certain foreign students or students whose situation does not permit a GSLP.

Although the schools which have access to substantial pools of funds to which they may direct their students are making a great use of the GSLP program where their students require such loans, they do have a number of criticisms of the way the program is being managed, the variety of sutdent assistance being offered, and the overlapping and confusing nature of some of the programs.

To summarize, on the positive side, the business and secretarial schools owned by large profit-making economic entities make good use of the GSLP program where such a program is needed to finance their students' education. This need, of course, is a function of the economic situation of the student and his family. In terms of achieving the Congressional intent of the program, the program must be deemed to be a success on this score, in the view of the secretarial and business proprietary schools owned by these larger institutions.

B. VIEWS OF THE INDEPENDENT BUSINESS AND SECRETARIAL PROPRIETARY SCHOOLS

While most of the problems of the independent schools are generally shared with the schools which are owned by larger economic entities, the problems discussed below have a more severe effect upon the independent schools and their students. In addition, these schools have the further problem, in many cases, of *not* being able to help their students obtain GSLP's either directly (as they themselves are usually not authorized lenders) or from banks willing to make GSLP's.

Compounding this is the situation noted in the section on schools as lenders. If these independent schools in fact are themselves approved lenders under the GSLP program, they, in many cases, are not able to sell their student loans to banks or lending institutions, and thus are unable to obtain cash to meet current operating expenses. Furthermore, their cash problems are aggravated by the very slow speed with which GSLP loans are approved by the government.

As a result of the above factors and the fact that the GSLP program has a tremendous amount of paper work, where possible these schools are not using the GSLP program but are using other programs of a similar nature where available from their state.

These schools have found that they have an easier time of obtaining loans for their students or of assisting their students to obtain loans for themselves from local banks under state programs (especially Eastern states) than under the Federal program. This is apparently so because of the greater pressure that can be brought to bear upon local banks to use the state sponsored program, such as that sponsored by the New York Higher Education Assistance Corporation. In New York, in particular, the state has encouraged the local banks to make guaranteed loans under the New York Higher Education Assistance Corporation Program under little-disguised threats of removal of state checking account deposits.

The independent schools feel that the needs analysis of the GSLP program is greatly unfair in that even though a student may qualify for the interest waiver, he frequently cannot qualify for the total amount of the loan that he needs based upon the unreasonably small allowable expenses which must be entered on the forms to be completed. A particular problem exists with regard to an independent student unable to be classified as a head of household but who is self-supporting. The expense allowances which must be deducted from the gross income to determine the amount of loan needed are artificially low, thus resulting in a great hardship to the students and in some cases inability to pay the tuition and attend the school. Banks are unwilling to use their legal discretion to make loans larger than the amounts determined by the form.

With regard to the great amount of defaults, these schools also believe that this is the fault of the program itself, in that the law determines that all collection effort, at least so far as that done by an attorney, must be left to the U.S. Attorney's Office. In addition, there is absolutely no penalty for the student if he should default. Their suggestion is that students be penalized for default and that banks and lenders be authorized to use their maximum collection efforts, including turning over defaulted debts to their outside attorneys.

They suggest that the attorneys would be compensated by the penalties plus a percentage of defaulted loans. With regard to the National Defense Student Loan Program, now the National Direct Student Loan Program, these smaller business and secretarial schools are generally allocated such a small amount of funds that they feel it is impractical for them to use the program. This is so because under the NDSL program the schools themselves must administer and collect the loans and are paid only a 3% fee for this effort. If the amount of NDSL loans outstanding is too small, the administrative expenses exceed the 3% fee.

Many independent schools which use the GSLP, in spite of the fact that a state-run student loan guaranteed program would be generally easier for them both to manage and to obtain student financing from, do so because these schools have made guaranteed student loans under the state sponsored program which have resulted in especially large defaults. In certain states, this results in the schools being cut off from obtaining loans for their students through the state guaranteed loan program. Thus, they are obliged to turn to the GSLP which, of course, results in a greater number of poor credit risks taking loans under the GSLP.

Some administrators in the independent business and secretarial schools believe that all parents should be required to co-sign all loans until the student reaches an age of 21 years. If the parent refused to co-sign these student loans, he would, nevertheless, remain liable for loans to finance the student's education up to a certain amount per year.

All in all, the independent schools seem to spend more time and effort attempting to assist their students in obtaining financing so that they might attend the schools. As a result, their relationship appears to be much closer to the students and they generally appear (based on a small non-scientific sample) to have a greater concern with the possibility of defaults on the student loans than the administrators of the larger schools which are divisions of large economic entities. This is probably because if the students of the independent schools default on a substantial amount of loans, these schools will in all likelihood have greater difficulty in the future in obtaining lenders willing to make loans to their students. In addition, they appear to be more concerned about what the various state or federal agencies might do to them by way of penalties now or in the future if their students have a large number of defaults on the guaranteed student loans.

C. PROBLEMS AS PERCEIVED BY BOTH INDEPENDENT AND "PARENT CORPORATION" AFFILIATE BUSINESS AND SECRETARIAL SCHOOLS

The following are the basic problems noted regarding the GSLP:

(1) The frequent change that Congress and the Office of Education continues to make in the program has caused widespread confusion regarding both the intent of the program and the procedures for its operation.

(2) The recent introduction of the "needs analysis test" has caused excessive paper work, and ambiguity regarding the determination of assistance.

(3) Perhaps the needs analysis test is of greatest concern to those schools with student bodies whose family economic situation is such that they do not qualify for the interest waiver benefits of the GSLP. The students generally have a difficult time independently obtaining GSLP's because the banks generally will attempt not to make a GSLP loan without interest waiver but instead will offer the student only a conventional loan which would include the seeking of guarantors or comakers. Certain schools whose parent companies are approved lenders shy away from loans where there is no interest waiver.

(4) Another weakness of the program is that the Basic Education Opportunity Grant should not be subtracted from the maximum amount of the GSLP that may be obtained. If a student is in need of a grant in addition to the loan, he should be granted both in full with no reduction in one or the other.

(5) With regard to the credit quality of the student loan paper, the needs test has resulted in the better credit risks obtaining loans other than GSLP's. This situation, of course, will result in an increase in the percentage of defaults, if for no other reason than the good credit risks from middle income families now are being effectively frozen out of the GSLP. (For many of the schools spoken with, this was more of an observation than a major problem since the majority of the students came from families in the $8,000 to $10,000 annual income range and 95% came from families whose annual income is in the range of $6,000 to $12,000.)

(6) Certain of the school administrators do not feel very comfortable with the GSLP, especially if this is the only, or the primary, program that the school is using in terms of advising and assisting their students in the selection of financial aid. The reason for this is that the Office of Education has been attempting to encourage the schools to use all student aid programs offered by the Office of Education. This, however, does not take into account the different requirements and the different situations that exist among the very large number of educational institutions that utilize the program. Because of various paper work and other requirements, it is impractical for some institutions to utilize some of the many student assistance programs. The administrators who voiced concern fear some future sanction because of their students' use of the GSLP almost exclusively.

(7) Many of the schools are also concerned by the very large default rate which has occurred and which may occur in the future with regard to the student loan paper. The schools feel that they are getting a very unfair black eye for this substantial default situation.

(8) Mechanically, a major problem with the program is that when the student drops out there are no mechanics to notify the lender that the student has left. With regard to the larger business and secretarial proprietary schools which are also lenders or which have affiliated corporations which are authorized lenders, these institutions have in some cases set up mechanics so that the school will notify the sister corporation which is the authorized lender that the student has dropped out prematurely. In these instances, the school, instead of making a refund as required to the student, will make a refund to the authorized

lender. This authorized lender will credit the refund to student loan balance, and will be able to implement collection procedures, or will notify the banking institution which has purchased the student loan from the initial authorized lender that it should institute collection procedures at the appropriate time.

(9) Certain of these institutions indicated that there was massive confusion among all of the various programs offered by the GSLP both as to their mechanics and as to the intent of all the programs, taken as a whole. Thus, some proprietary schools offer National Defense Student Loans and some do not. Some have been very successful in encouraging their students to obtain Basic Educational Opportunity Grants (BEOG) and some have been less successful. Some schools have used the College Work Study Program and some do not use it at all.

(10) A major problem that many of them see with the program is the slow approval of student loan applications by the Department of Health, Education, and Welfare. The larger schools have been able to overcome this by allowing the student to be admitted to the school prior to final approval and then collecting the proceeds from the student loan after final approval. But, in any event, the liaison and flow of information between the Office of Education and the schools are very poor. Some schools also point out that this is also apparently the case with regard to the communications between approved lenders and the Office of Education.

D. VIEWS OF BUSINESS AND SECRETARIAL SCHOOL REGARDING IMPROVEMENT OF THE GSLP

The views of most of these institutions is that the large number of Federal student assistance programs should be distilled into two programs, one of which would be simply a grant based on need and the other would be a loan. Of course, those who advocate this system, advocate greatly expanded BEOG's. The interest on the loans would not be subject to any interest waiver and the loan would have to be paid and would be collected.

The distillation of all the student financial assistance programs into these two programs, in the opinion of many schools, would greatly simplify the program and alleviate the multiple needs tests (e.g. one needs test for BEOG and a different needs test for GSLP) and provide a much more easily managed student financial assistance program. In addition, the elimination of interest waivers with regard to the GSLP's and the increase in the BEOG's as opposed to granting the interest waivers would result in a more equitable distribution of the government's education assistance funds and a more direct attainment of the program's subsidy objective.

On the other hand, it would also allow the implementation of a program to collect the interest or a certain portion of interest on a monthly basis even while the student is in school even if only an amount of $10 per month is collected toward interest at that time. Such monthly payments will assure that the student is kept aware of the fact that the GSLP is a loan that must be repaid. A major problem of the current program is that in some cases, according to certain student financial aid officers and administrators, as many as 30% of the recipients of the GSLP do not understand the fact that the GSLP is a loan that must be repaid. A major problem of the current program is that in some cases, according to certain student financial aid officers and administrators, as many as 30% of the recipients of the GSLP do not understand the fact that the GSLP is a loan and thus don't properly assume the obligations of the loan.

Regarding the problem of default, many schools believe that the situation is largely a fault of the program itself for a number of reasons. The primary reason is that there has been no effective collateral established for these loans. Effective collateral, they feel, should be established in the form of very stringent rights of the government to collect the loans from wages earned by the students in the future. Methods of avoiding future payment such as bankruptcy, and such as avoidance of the loan as a result of infancy statutes should be eliminated. In addition, government should have a very strong enforceable right to garnish the future wages of a student. The Office of Education should be able to utilize the services of the Social Security Administration to trace the student and to find his employer. When that has been done, the Office of Education should have the right to use outside collection agencies, in-house legal staff and/or the services of the Internal Revenue Service to collect the loan. On the other hand, the schools feel that to make the repayment of the student loan less burdensome to the student, he should be able to obtain a tax credit for a certain amount of the loan as it is repaid. Thus, he would be able to utilize some of his taxable income for loan repayment and, at the same time, take a deduction for a portion of these repayments.

VII. VIEWS OF TRADE AND TECHNICAL SCHOOLS

Because Trade and Technical schools are accredited by the National Association of Trade and Technical Schools, the view of these schools is slanted somewhat toward the view of the Accrediting Commission of NATTS. In addition, however, trade and technical schools have many of the same problems faced by business schools, by colleges and universities, by home study schools, and by lenders of all types. The major distinction of trade and technical schools seems to be that their accrediting commission is probably somewhat stronger than others in the proprietary school field. Other differences tend to lie in the areas of length of course, length of lead time prior to starting school, and placement methods after completion of the training program.

A. PROGRAM DEFINITION

The National Association of Trade and Technical Schools is concerned with program definition. It is the belief of NATTS that, in general, the program was originally legislated for "middle class" students. Lower income students would come under grant programs and higher income students would likely not be in need of educational financial assistance. The advent of the needs analysis test has caused the program to become more oriented toward lower income students and therefore has changed the entire program. NATTS, as well as the majority of trade and technical schools, believes that needs analysis should be done away with totally for the purposes of the federally insured loan and should be only used for the purposes of making grants. Educators in this field feel most of the five financial assistance programs have evolved into lower income programs all serving the same target group. It is their belief that there should be a simplification of the federal assistance program so that a student receives a "grant" based on need and a "loan" under either the federally insured program or the National Direct Student Loan Program. The majority of trade and technical schools prefer the National Direct Student Loan program for obvious reasons. The school has control of the program and the inherent confustion relative to how funds are to be obtained under the federally insured program is not present in the National Direct Student Loan. However, for the purposes of this report, the data considered will be limited to the federally insured student loan program.

B. DUE DILIGENCE IN LENDING

If we consider that it is taken for granted that the GSLP is in fact a "middle class" program and that there will be no needs analysis, then the next point that comes about is whether the program is a "credit" program or not. Trade and technical schools feel that the government has been devious in this area in that the major reason for having a government guarantee on the loan to begin with is that the student, because of his youth, usually has not built up credit and therefore could not obtain a loan anywhere else for the purposes of going to school even though he may be quite intent on paying the loan back. Therefore, trade and technical schools feel that the GSLP is not a credit program and that claims by the government that a lender (whether he be a school lender or a bank) has not used due diligence in making a loan is farcical. If there is such a thing as due diligence in making a federally insured loan then it should be specifically defined in step-by-step manner.

C. STRAINING OF INTEGRITY

The next thing that has become apparent to these schools is that there has been a lack of integrity in all areas concerning these loans. Banks have simply made the loans and said "they are government guaranteed so we just won't make any effort beyond doing minimal paper work." Students have taken out loans simply to get money for other things other than education and have shown up a day or so in class so that they could get their federal loan funded and then used the money for other things. Schools have sometimes purposely gently passed over the fact that the student is getting a loan as opposed to a grant, and the student is sometimes quite surprised that he owes the money after he gets out of school. Thus, from these viewpoints, the integrity of all concerned has been strained.

D. FUNDING

One of the major problems encountered by these schools is the unavailability of funds—the banks, as is discussed in Chapter III, are reluctant to make these loans, and the problems of schools being lenders is discussed in Chapter IV.

E. PAPERWORK

Next in significance to the schools is the problem of paper work. In order for a student to get a loan both the lender and the school must do a great deal of paper work. Since lenders have no incentive to make these loans, the school usually ends up doing both ends of the paper work, in order to make loans available for its students. This paper work load requires extra personnel and invariably raises the tuition for the student. Although the Task Force did *not* review O. E. operations, a cursory look at some correspondence from O. E. to the school owners on the team revealed a byzantine detail of procedures. It is unlikely that this kind of detail was legislated, and it appears to the schools to be the creation of an officious, self-serving bureaucracy.

F. PERSONNEL

The personnel problem in itself is a major concern. Schools read the regulations and find that they must name somebody financial aid officer. Thus, some girl in accounting is usually named financial aid officer and stuck with dealing with millions of dollars, yet she knows nothing about the government program. The same thing happens in banks and other lending institutions. People on the lowest level are automatically the ones assigned the responsibility of being the loan officer in charge of federally insured loans and therefore these loans get the lowest level of competence of personnel available in both the school and the lending institution.

Since the paper work is massive, this causes a huge block of fouled up information arriving at the government office.

G. MANUALS

The paper work and personnel problem is, to a great extent, caused by the lack of distinct, descriptive manuals used for the program. Those manuals that are available are not up-to-date and are so detailed that it takes a master mind to decipher them.

H. DIVERSITY OF ANSWERS FROM O.E.

What's more, when questions are asked relative to the manuals, each level of the Office of Education gives a different answer. The same question asked in different regional offices will get different answers. Schools that operate in several HEW regions are faced with this problem daily.

Most schools complain of getting the "run around". The regional office says that it is a state problem, the state office says it is a regional problem, the regional office then sends them to the national office and the national office still says it is a regional problem. The end result is both lender and school do not get an answer.

I. APPLICATION TURNAROUND TIME

A specific problem especially acute in the trade and technical school areas is the turn around time necessary to get a loan guaranteed. Since trade and technical schools typically enroll students only two or three weeks before class starts, it is impossible to get a loan guaranteed prior to the student starting. This leaves only two alternatives. Tell the student he can't start until his paper is guaranteed at which time he will usually either decide to not go to school or go to an unscrupulous school that will take him on a gamble. Or the school must take the student on the gamble that the paper may be guaranteed while the student is in school. This gamble is a problem in that some trade and technical schools have courses that end so fast the student may well be out of school before the government can go through all of its paper work.

J. CLAIMS TURNAROUND TIME

Turn around time is again a problem when defaults occur. Most lenders know that once they turn in a claim they will not be paid immediately, and they lose interest[1] while the government bounces the paper between offices. Even though there is now interest during this period, the lenders are so used to the problem in the past that they will ignore the fact that new loans do have interest paid for the period between when the claim is turned in and when the claim is paid.

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[1] No double meaning is intended.

Lenders have consistently gotten all sorts of excuses for not paying claims. Most would accept the fact the government is simply out of money but do not like getting other excuses. Since lenders are typically doing schools a favor by making loans available to their students, the lenders are inclined to pressure the schools to directly or indirectly compensate them for the non-earning period.

K. RELATIONS WITH BANKS

This brings forth one of the problems most apparent in trade and technical schools. The Government has said no points or premiums may be paid to a lender to induce him to make a loan for a student. Although this was supposedly done to keep down the cost to the student, the schools feel that this has greatly increased the price of education. Schools could well afford to pay two or three points to a lender for handling loans for them, just as they pay banks for handling private paper. However, since the Government has said that no points or premiums may be paid, tuition has gone up 20% to 30% to cover the problems inherent in the school being a lender or in covering up its method of paying the lender. The schools are aware that lenders make loans to make money, and, that as it stands, there is no way federally insured loans will make money unless the lender is getting some sort of payment from either the student or the school. Since points or premiums have arbitrarily been cut out but normal working relationships have been left, schools are forced to "sweeten" their total relationship with the banks. This has caused extremely high compensating balances and high interest rates on direct loans to the schools to make up for the lack of yield on the federally insured loan. This type of payment means that the cash flow of the school is greatly reduced, therefore increasing the tuition 20% to 30% rather than 2% to 3%. The overall effect is to make a much more expensive course for all students, and as far as the schools are concerned, to make the "rich get richer and the poor get poorer."

L. DEFAULTS

One other point that has come up several times is the interaction between government agencies. The Federal Trade Commission has given an extremely hard warning to students to beware of unsavory practices by proprietary and other schools who use recruiting agents. Many students take this warning as an excuse to claim misrepresentation, and then default on the payment of their loans. Some even say that the Federal Trade Commission "says that I don't have to pay." Defaults have grown even more due to the fact that the needs analysis has forced the federally insured loan into a lower class program, automatically causing a higher rate of defaults. In addition, as long as schools are allowed to be lenders, this allows the school to "sell loans" as opposed to selling education, and therefore dissatisfied students do not pay. Proprietary schools have a high default rate, partially due to their selling tactics; but also because loans made for proprietary schools reach the payout period several years before college loans, therefore weighting statistics.

M. SUGGESTED CHANGES

A brief overview of the feelings of trade and technical schools relative to improving the federal loan program would be:

1. to do away with schools as lenders.
2. have a specific definition of due diligence in lending.
3. have a specific definition of due diligence in collecting.
4. do away with the needs analysis completely.
5. require a down payment for the loan.
6. have the student make payments while he is in school.
7. allow lending institutions a decent yield to make the loan attractive.

There are several ways of accomplishing the above, but, in general, this would be a synopsis of the solutions.

VIII. VIEWS OF HOME STUDY SCHOOLS

On December 3, 1973, a questionaire was sent to 80 accredited National Home Study Council Schools requesting their opinions regarding the GSLP and most specifically how it affects the students, the lenders, and the schools. In addition, the schools were requested to submit recommendations on how to improve the program.

To date, a total of 28 returns have been received. Eight of these have no comments since they are not involved or do not have sufficient information regarding GSLP to mak an assessment.

The following narrative is concerned with the 20 schools that presented information and opinions.

A. VALUE TO STUDENTS

The respondents generally expressed themselves eloquently and with a diversification of opinion. The following quotes are indicative of the extremes:

"Students—without the Federal Insured Student Loan most students could not achieve their goal in life."

"It has been our experience that for the student who truly wishes to better himself through a vocational training program, the Student Loan Program can be a major factor in attaining this goal."

"My opinion of the guaranteed student loan program as it affects students is good. The basic idea of giving the student an opportunity to obtain money to attend school, when needed, plus the fact that the student has the outright obligation to repay the money makes it a better program than the grant and scholarship programs."

"It is a wonderful program if you believe in Santa Clause. But, if you believe in the fundamental facts of life, it is a trap for the student, a windfall for unscrupulous school owners, and a fraud on the American taxpayer."

"Since correspondence school students are generally already employed and therefore only part-time students, I do not see the probability of any dramatic increase in their income which would allow them to pay off their student loans on time. By and large, I think we do correspondence school students a disservice enrolling them in the FISL program, since a majority of them will not finish—witness the completion rates and graduation statistics of most of our member schools."

B. DEFAULTS

Many school owners are surprised that the government is surprised that the completion rate in correspondence schools is so low and the default of payment is so high. "If the school had bad debts of only 4–5% it would be foolish indeed to use the FISL program. However, 20 to 30% rage [sic] is not unusual."

It is obvious that what is occurring among all the proprietary schools is that the GSLP is used as a last resort, after the school finances the credit-worthy through their own programs.

C. EFFECT ON CORRESPONDENCE SCHOOLS

The majority opinion, even among those who are profitably using the program, is that it is probably inappropriate for correspondence schools. Some of the comments on the effect on the schools can be summed up as follows: The immediate profitability and cash flow is great but the school cannot "just do a little bit of GSLP"; it becomes hooked on it and because of the need for continued cash flow "some schools are not selling enrollments—they are literally giving them away." The potential for disaster (bankruptcy if the school) is enormous and, as was mentioned, the program is a windfall for unscrupulous school owners and strains the integrity of those with scruples. The consensus of opinion is that "many schools take advantage of GSLP by enrolling students into courses they do not need or are not qualified for." Mention was also made of the discrimination in favor of the schools who can afford to be self-lenders.

D. PAPER WORK

Additional comments were made about paper work. These respondents were considerably more eloquent than the banks and words like "fantastic" and "incredible" were frequently used.

E. SUGGESTIONS FOR IMPROVEMENT

A significant minority of schools expressed the opinion that if the program "is handled judiciously, it can be a definite asset to the school in terms of completed students." In order to accomplish this, some of the recommendations of the schools are:

"HEW should guarantee only that part of the loan which has been earned. This eliminates the refund problems which have plagued many of our member schools. It also would solve the problem of interrupted processing of loans. HEW might respond to this recommendation by suggesting that the banks disburse only as tuition is earned. The banks probably would agree, if they were paid for the administrative trouble."

"Make it mandatory that at least 15% of the principal amount of the loan be liquidated by the student annually, while student is in school. This amount should not be insured."

"Collect delinquent balances through use of IRS offices."

"Provide a servicing fee to lender to help defray servicing cost."

"HEW should permit the usual practice of compensating balance."

"Schools must have recruitment controls, educational competence and accountability."

"Loans should be disbursed direct to the school for tuition and books only."

"Correspondence school students should be required to start payment on loans sixty days after completion of training."

IX. Team Views on Collection of Present Debt

The collection of the current debt created under the Guaranteed Student Loan Program, which totals approximately six billion dollars at the present time, is being hampered by a number of factors including many of those outlined in previous sections of the report. The current debt owed by the students is subject to large and increasing rates of default.

A. AFFECT OF REGULATIONS AND POLICIES

1. The Office of Education's budget does not provide for adequate personnel for internal collection efforts, and
2. The Office of Education's policy is such that no contracts may be granted to outside collection agencies to attempt to collect on defaulted loans.
3. The current law provides that only the U.S. Attorney's Office may institute litigation for collection, and litigation has not been resorted to as yet.

No penalties exist for the schools or for the students with regard to defaults on loans. At the current time there is no language in the law or Office of Education regulations which would even hint at the possibility of real penalties for schools or for students resulting from defaults. With regard to lenders, there is the penalty of loss of the Federal guarantee of outstanding student loans, if the lenders' collection procedures do not follow ordinary care and diligence, but the latter term is poorly defined.

With regard to subsequent purchasers of outstanding government guaranteed student loans, there appears to be no formal obligation spelling out the diligence in collection procedures that these subsequent lenders must follow or the continuing obligations, if any, of the original lender.

Banks and authorized lenders are not inclined to do anything more than the minimum in terms of collection. There are no rewards to banks (or schools or students, for that matter), with regard to keeping default rates down.

There is no collateral and no stated right to garnishment of wages which is the only real collateral available under the current regulations and procedures of the Guaranteed Student Loan Program.

B. THE OVERHANGING CLAIMS

It is the unanimous opinion of the group that the existing defaults are but a small fraction of the potential defaults. Part of the potential resides in loans that have not yet matured, and an unknown but large amount of loans that have been repurchased by the lending institution (some schools and some states) but still overhang. The schools and states bought back this paper so as to keep their apparent default rate low but it is potentially a large source of claims.

With regard to what was previously referred to as the overhang, that is, defaulted loans which have been repurchased by schools or states, the recommendation was that the institutions holding this paper be given no more than one year to file them as defaulted loans. The federal guarantee should terminate after that period. An incidence of default must be operationally defined, and the guarantee for future defaults should terminate after one year.

The team has not addressed the problem of loan defaults through state lending agencies. We have no comment on this problem other than to require the state to meet a deadline similar to that of schools and banks.

C. TREATMENT OF DEBTORS

Collection efforts on the present defaulted debt should be made in a manner that considers that much of this debt was incurred under conditions that could be perceived by the debtor as misrepresentations or at least ignorance. It is the unanimous opinion of the group that direct threat of legal action and legal action should be brought only against those debtors who owe large sums of money, who have the wherewithal to pay, and who received real value from the education which occasioned the indebtedness. While other reasons lead the group to unanimously recommend the use of independent contractors as a collection agency, it is felt that the operations of reputable collection agencies are such as to act in a manner compatible with the above statement. Generally, debtors are treated in three categories. If they have received no value and would be financially distressed by repaying the debt, the collection pressure is relatively mild; if they have received little value but are likely to be able to repay the debt, they are advised of the importance of paying the debt to keep their credit standing good; and if they have received value and can pay but haven't, considerable pressure is brought to bear.[1] Incidentally, when a commercial collection agency forwards a claim to an attorney the remuneration to the collection agency is minimal.

D. STAFFING ANALYSIS

While O. E. may staff up with its own collection force sufficient to handle routine collections as they occur in the future, it is unanimously recommended that O. E. not attempt to staff up to handle the load represented by the present debt. An analysis of the effort required is as follows:

"The requirement for the creation of an O. E. internal collection system to collect $1,500,000,000.00 worth of loans throughout the nation would be prohibitively elaborate. $1,500,000,000.00 in loans which are severely delinquent with an average loan of $1,100.00 per borrower would mean we have $1,300,000 borrowers. Assuming that 90% of the 1,300,000 people are treated as delinquencies and that one collector can handle 400 accounts (which is significantly above the average for collectors from commercial banks) 3,000 collectors would be required. If the remaining 10% or 130,000 became legal cases and were handled 50 per man, which is again above the commercial bank collector's average, an additional 2,600 legal collectors would be required. Add to this the administrative staff and secretarial support and it appears that the Government would have between 5,000 and 10,000 additional employees to collect these student loans. 7,500 collectors at an average cost of $10,000 per person is a total cost of $75,000,000.00 in annual salaries. This would seem to be an unacceptable solution and it would appear that substantial bonuses could be paid to banks instead."

E. SHOULD O. E. COLLECT INTERNALLY?

Several of the team members feel it would be inappropriate for O. E. to set up any collection department at all. Research on the characteristics of successful collectors indicates that they—

Are forceful, assertive, aggressive, and somewhat hostile;

Are leadership oriented and quick thinkers who enjoy verbal persuasion and dominating people encounters;

Are ambitious, desirous for quick rewards, money and job progression, and have a strong need for recognition and personal praise;

Require individual treatment;

Are independent, resourceful, nonconformists who dislike rigid structure and resent authority;

Work best under strong pressure to produce results;

Are highly persistent;

Prefer odd work hours.

One recommendation involves paying the banks a bonus for collection of debts that O. E. has acknowledged are in default. Since the banks already have collection departments and collection procedures, and since they would be familiar with the debts on their own books, it would appear proper for O. E. to pay them bonuses. A figure of 10% of collection was suggested. (This is less than commercial collection agencies charge.) There was some discussion about the banks being tempted to define more loans as being in default if they operated under this procedure; but the consensus of opinion, considering the number of regulatory agencies under which the banks operate, was that this was highly unlikely. The majority opinion, however, was that commercial agencies would be more effective than banks.

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[1] The fourth category deserves special arrangements of lengthened payout.

F. SUMMARY OF SUGGESTIONS RELATED TO COLLECTION OF THE PRESENT DEBT

1. Assure toughness of collection effort is appropriate considering circumstances of the indebtedness.
2. Engage as contractors present successful collection agencies (perhaps banks) for the overload.
3. Establish a deadline for overhanging defaults.
4. Assess ability of O. E. to directly employ successful collectors.
5. Systematize collection procedures.

X. TEAM VIEWS ON THE TARGET AND NEED FOR THE PROGRAM

A. PROBLEMS

As the team members investigated the broad problem of assessing the need for the program and the effect of the program, the following more specific issues became apparent:

1. Loans or grants: whether the program was designated, is being administered, and is being perceived by students and schools as a lending program or as a disguised grant.

2. Student target: what are the characteristics, in terms of personal and family income level and personal independence, of the students this program was designed to assist; and what are the characteristics of those it is actually assisting; and the effect of administrative procedures in charging the actual target from the legislated target.

3. Student access and awareness: the assessment of the degree to which all students (and non-students) who should be taking advantage of this program are aware of it and have practical access to it.

4. Government subsidy: the team members did not perceive any calculated knowledge, among O. E. staff, as to the ultimate amount of government subsidy the program would require, or as to whether the program as presently administered used subsidy in the most cost effective way.

5. Institutional targets: the effect that the program, both by legislation and administration, is having on: small colleges or large universities, independent or financially affiliated proprietary schools, and home study schools.

6. Perceived goals of O. E. staff: they seem to measure the achievements of the program, not in terms of educational needs fulfilled, but in terms of dollars lent out.

Although there was a high degree of consensus of opinion about the problems inherent in the present lack of definition of the program, of the target student, and of the effect on schools, the different aspects investigated and reported by the several team members warrant some repetition in the following narratives.

B. THE PROGRAM IS NEEDED

Bankers, school administrators, and students are generally unanimous in their feelings that the program, as it was originally designed, would fulfill a major need in financing the education of many students—students of large and small colleges, universities, and proprietary schools. The team members are unanimous in concurrence with this.

> Welfare economists are only beginning to understand the staggering burden of social costs involved when we do not provide the necessary vehicles for every citizen to realize his maximum potential through education. We must maximize every citizen's optimal contribution to GNP if we are to remain the economic leader in the world and provide jobs for the growing numbers of entrants into the labor force.
>
> It is against this background that the lending community recognizes a need for these programs. However, education is a public good in that the benefits accrued are relatively indivisible. That is, we all enjoy the benefits of living and working in a society whose quality has been enhanced by the increased educational achievements of its citizens and we enjoy those benefits without necessarily being exacted a price for them. We have not yet

developed our understandings of these benefits and how they impact on the earnings of a corporation. When lenders commit resources to a program they must be able to measure the benefits derived from doing so. It is difficult for them to provide an overwhelming response to social welfare functions.

It is felt by universities, colleges, and trade and technical schools that the program is needed and has greatly enhanced the opportunity of many students to obtain a viable education in the field of their choice. Although the mechanics do not work properly at the present time, the overall idea is good and does enhance the ability of all prospective students to attend the school of their choice.

C. THE TARGET HAS BEEN MISSED

Based on their interviews and assessments, the team members are unanimous in their concern that the program is presently porly defined in terms of target, that through administrative action the target has been modified from the original legislative intent, that this modification has been detrimental to the total accomplishment of the program, and that the needs analysis test, as applied to loans, is a principal cause of this malfunction.

The original definition of the program target has not been adhered to. This drift from the target has been partially responsible for the default and delinquencies rate. Originally the program was designed to target the middle income groups in order to provide low interest educational financing. However, the unrealistic income criteria in the needs analysis has resulted in the exclusion of many members of the middle income target group. In addition, the guaranteed aspects of the loan have been utilized in a manner which has encouraged an increasing number of low income, high credit risk groups to obtain funds under the program resulting in an increased default rate and increased administrative costs to the lender. From our point of view, the guarantee was originally designed to reduce the risk involved to the lender in loaning money at this low rate for this length of time to the middle-income target. This guarantee has been misinterpreted as a method of subsidizing groups of applicants who are substantially higher credit risks than the intended target group.

The Guaranteed Student Loan Program as it has been amended since 1965, with particular reference to the amendments of 1972 concerning the needs test and needs analysis, has resulted in the program effectively discriminating against students from middle class families. This has occurred bacause the needs test frequently eliminates the interest waiver, which makes FISL's difficult to obtain and, in addition, frequently eliminates the student's ability to obtain a loan of sufficient magnitude to satisfy the student's real and reasonable needs.

As a result of the discrimination that the needs test has now resulted in, against the middle class student, the government's funds are being more aggressively directed away from educating those most likely to repay their loans, i.e. students from middle class families. In fact, the excessive push by certain schools to obtain students from families who are economically poor has resulted in the granting of large numbers of loans to students who are either not prepared to assume the loan obligations or who are not in fact qualified for the education that they receive as a result of funds obtained by them under the Federally Insured Student Loan Program. This results in both the government losing substantial resources when the students default on their loans and the students having their record marred by defaulting upon the Guaranteed Student Loans because of being induced to attend a school whose education program they are not fit or able to benefit from.

The GSLP, like all the other Federal student assistance programs, is, in, fact, a social welfare program. However, the GSLP seems to suffer from the lack of a stated definition of whether it is a social program created primarily to enhance the educational level of our population or whether it is a standard conventional profit oriented credit program which should seek to take only good credit risks and then enforce collection. If the GSLP is, in fact, the latter, it has no place in the Federal student assistance programs, since there are private banking and credit institutions which more than adequately can serve the requirements of good credit risk borrowers. On the other hand, we know that the GSLP is in fact directed to serving the needs of student borrowers who are not good credit risks and those student borrowers who, although they may be satisfactory credit risks, have difficulty in obtaining credit to finance their education. If serving these borrowers is the intent of the program, it meshes very well with a number of other programs, such as the NDSL program, the WIN program, the College Work Study Program and the BEOG and SEOG programs. On the other hand, the needs analysis procedure as it is currently operative greatly reduces the value of this GSLP program in satisfying the aforesaid objectives of supplying adequate credit to those who need credit (not grants or work study, etc.) in order to obtain an education.

The needs test as implemented in March, 1973, has been a total disaster for the program both in terms of quality of credit granted and in terms of effectively freezing out many needy students. This is so not only because of the limitation of the size of loan which has resulted from the needs test, but also the elimination of the interest waiver for certain students, which discriminates against these students because of the fact that no needs test has ever been created which will truly define the real needs of a borrower. Thus, the needs test should be entirely eliminated and the maximum GSLP be granted to any citizen who desires to attend school.

D. CONSOLIDATE PROGRAMS: ONE GRANT, ONE LOAN

The team members suggest that there should be one grant program and one loan program with the needs analysis test being applied to the grant program only.

It is felt that there are too many federal programs for packaging purposes. In general, we concur with the trade and technical schools that there should be a grant program and a loan program. The grant program should be based on need and the loan program should be available to anybody who requests it. The loan program can be either the National Direct Student Loan or the Federally Insured Student Loan but there does not need to be both available. This is not a unanimous thought for many, if not most, trade and technical schools prefer the National Direct Student Loan to the Federally Insured Loan. This preference is due to the problems outlined in Chapter VII on the views of trade and technical schools.

The proliferation of programs has resulted in substantial confusion as well as lack of proper use of some of the programs. Thus, a distillation of all of the Office of Education student assistant programs could probably be nicely done by the elimination of all the programs except the BEOG and the GSLP. If this were to be done, BEOG's would be expanded and there would be only one needs test for BEOG and GSLP. Based on this one needs analysis, a certain amount of funds would be granted under the BEOG and any remainder would be GSLP. The GSLP would then be collected as if it were a normal credit situation, i.e. intensive collection efforts would be made to collect the loan. This would not be a hardship on the student if the BEOG were expanded to provide funds for those students whose financial situation demanded a larger BEOG than currently available but who now receive interest subsidized GSLP's because of the current limitations on BEOG's. No interest waiver would exist and thus no interest subsidy. The funds formerly used for the interest subsidy would be used to bolster the funds available for the BEOG's. If necessary the NDSL would be kept in its present form, which is now dwarfed by GSLP and which will soon be dwarfed by BEOG. On the other hand, NDSL does provide for institutional allocation of funds based on merit as well as need and thus provides an important dimension lacking in the other programs.

We recognize the need for funds on the part of our underprivileged citizens; however, the vehicle to supply funds for this group would be more appropriately a grant, not a loan. We feel strongly that to loan money to students who are not prepared to cope with the responsibilities of contractual relationships does not enhance or encourage our Nation's educational betterment. Programs should be designed with a view to succeeding within the parameter of needs of individual students.

E. STUDENT ACCESS: WHAT IS THE MARKET AND HOW CAN IT BE SERVED?

There is concern that some individuals who should be using the program (in the sense that they are now undereducated) are practically prevented from using the program, by their unawareness or misunderstanding of the program, or by discouragement from schools. There is additional concern that, if all who should use the program did, the funding required by the government would be very much larger than it is now.

We recommend that a study be made to determine—

The ultimate size of the market (undereducation caused by financial reasons),

The market share being served by the GSLP product,

Awareness and perception of the product in the market, and

An analog to price-volume relationship.

The survey would include students educated at various levels, as well as individuals who terminated their education at or during high school. Individuals who applied for and were denied loans and grants would be included in the sample.

Information on the "price-volume" relationship would be useful in determining how best to serve the market with a limited amount of the critical resource of funding. The team members assume that a limit does exist, and that it must be divided among—

Internal administrative cost,
Subsidized interest differential,
Indirectly reimbursed processing cost,
Paying off defaults, and
Commitment of funds cost (government borrowing).

A related issue is the apportionment of funds to grant program or loan program.

The team members are critical of the present allocation of these costs: it appears to be done in an unplanned manner, and based on less information than could be made available. To some of the team members it does not appear to be done at all and there is no acknowledged limit: the expenses "just happen."

It is believed that the suggested consolidation of programs into one of grant and one of loan, and the elimination of interest waiver, will be in the right direction of resource allocation. Another consideration is how much interest to charge the student. This probably is the key price-volume tradeoff analog.

F. INSTITUTIONAL TARGETS

The program as it is presently administered, it appears to the team members, has had an effect of shifting students from small colleges to large universities and from independent proprietary schools to those affiliated with strong financial resources. The team members believe that these shifts are contrary to the intent of the legislation.

As had been mentioned, these shifts occur because of two reasons: the nonavailability of the loans at the small colleges and independent proprietary schools, and the relative unavailability of funding to the middle class student who more typically attends these types of institutions.

Some of the team members questioned the appropriateness of offering these loans to students of home study courses. The reasoning is as the home study school owners related in Chapter VIII.

G. O.E. STAFF GOALS

There was unanimous concern as to the appropriateness of the goals of O.E. staff. These goals should be stated in terms of effectiveness of the program in increasing education instead of dollars loaned, and that is how the cost effectiveness of the program should be measured and compared with other programs.

H. SUMMARY OF SUGGESTIONS

In summary, the suggested solutions to the problems of program definition are:

1. Consolidate programs—a loan program and a grant program.
2. Eliminate interest subsidized loans. A grant could cover the interest subsidy.
3. Eliminate needs analysis for loan program.
4. Prevent the schools from being lenders, directly or indirectly.
5. Survey student and nonstudent population so as to measure the total need for the program as well as the awareness of and the practical access to the program, and the price-volume-expense tradeoffs.
6. Legislate and fund the program based on knowledge of government commitment for funding that will be involved.

7. Legislate the target and prevent changing the target administratively.
8. Assure funding in accordance with a legislated need, without requiring bankers to subsidize the program.
9. Require a down payment and ongoing interest payments. This will tend to assure a student target that is committed to becoming educated.
10. Reassess the appropriateness of the program for home study students.
11. Restate O.E. goals in terms of educational achievement and cost effectiveness.

XI. Collection of Future Debt

A. THE ATTITUDE OF BANKERS

There appears to be an underlying theme from discussions with bankers that the entire Guaranteed Loan Program is a form of a grant program. Since this idea prevails in the thinking of the bankers, credit criteria in granting of loans is much lower and the collection effort of the bank is often of a minimal type, just sufficient enough to qualify for the "due diligence" requirement. The attitude seems to be "since the Government is going to pay the loan anyway, I don't have to worry about it." The entire collection attitude of the Student Loan Program must be changed starting with the Office of Education and moving swiftly downstream to all lenders.

B. STUDENT ATTITUDES

The students do not always understand that they are getting a loan rather than a grant—some of the paper work has been misleading to the extent that some students believe that they are getting a grant rather than a loan and some unscrupulous sales personnel have purposely misled the students into believing same.

A major problem of the current program is that in some cases, according to certain student financial aid officers and administrators, as many as 30% of the recipients of the FISL's do not understand the fact that the FISL is a loan and thus don't properly assume the obligations of the loan.

There is growing concern that some students, especially those with large loans, contemplate bankruptcy proceedings so as to avoid the payment upon graduation.

C. POSTURE OF THE SCHOOL

Some institutions have permitted unqualified students to enroll and make application for the Government Student Loans simply as a means of generating additional funds flow. In these cases, the probability of the students' success in school is small and the probability of default is great.

Due to the fact that the government has administered the program into a "lower class" program they are automatically causing a higher rate of defaults. The needs analysis causes the program to be put into an area where defaults are going to be high. In addition, the fact that schools are lenders allows them to "sell loans" as opposed to education and therefore have dissatisfied students and a great deal of defaults. The fact that proprietary schools have a high default rate is partially due to their different selling tactics and partially due to the fact that loans made during the same period of time to colleges have not yet begun to be in their payout period, therefore, weighting the statistics.

D. AWARENESS BY LENDER OF DEFAULT

Mechanically a major problem with the program is that when the student drops out there are no mechanics to notify the lender that the student has left.

E. LOCATING THE DEFAULTER

The most expensive part of collection procedures is finding the debtor. The combination of the mobility of a student population and the length of time between funds disbursement and the first collection effort results in an abnormally high percentage of unlocated debtors.

F. LEGAL REMEDIES

Legal remedies such as garnishment or threatening legal proceedings are not presently permitted.

G. SUMMARY OF SUGGESTIONS

1. Prevent the schools from being lenders, directly or indirectly. Schools are not set up or staffed to perform this function and they are more likely to misrepresent the lending situation than are banks.

2. Some of the team members questioned the advisability of permitting home study students to qualify for the program. The traditional noncollection rate of home study schools is substantially higher than that of resident schools and substantially higher than the GSLP should tolerate.

3. Eliminate from the program the loans with subsidized interest payments. The routine payment of interest provides an immediate and continued contact between the student and the lender. The team unanimously feels that the additional administrative and bank processing cost involved in the loans without interest subsidy would be more than overcome by the reduced expense of default and of the mechanical problem of notifying the lender when the student terminates his education and the reduced cost of locating defaulters. Additionally, the team members are certain, from prior experience, that students willing to make an interest payment are much less likely to default on the principal amount.

4. Require a down payment from each student. The figure of $100 was suggested. The student then has some investment in his education and his interest in education is more assured.

5. Require interest payments to be made by the student monthly. It is the feeling of most of the team members that the requirement of the down payment of $100 and monthly interest payments ranging from $8.00 to $40.00 per month would significantly reduce future debt collection problems, improve the target to those committed to becoming educated, and not distort the legislative intent of the program.

6. Each lender qualified for the progam should have a specialist who maintains a current knowledge about the program. The Office of Education should provide training for these specialists. This training should also be available to school administrators. Some of the members suggest that the Office of Education test and certify the qualifications of the lenders' specialists.

7. Some of the team members felt that the Office of Education should establish direct communication with the student to advise him of its role, and to reinforce the student's knowledge of the conditions of the loan, and to provide some assurance that the leader be notified either by the school or the student as to the time that the student terminated his education and the loan matured.

8. At the time the student enrolls in school, he should reaffirm, by signature, his contract regarding the loan in order to insure that he fully understands the nature of the agreement to which he has contracted.

9. Based on the precautions that would prevent any misrepresentation of the loan, the student should be required to waive legal defense of infancy and bankruptcy, and permit garnishment and priority claims.

10. Some of the team members suggested that the school be a partial cosigner. Present practice with regard to National Direct Loans in effect makes the school a 10% cosigner.

11. The Office of Education should be permitted to use social security numbers for tracing students. A social security number application should be required of every student.

12. Funds should be disbursed to the school on a pro rata basis; that is, in proportion to the education received. A quarterly system might be employed. Schools would be required to verify that the borrower is a student in good standing and show evidence of his progress before additional funds could be forwarded to the school. It is recognized that this is contrary to present school refund policies and will increase the administrative costs of funds disbursement. The cost effectiveness of the savings in defaults and collection efforts against the increased administrative costs should be investigated.

13. O. E. should require of the school an exit interview with each graduating student and with those terminating before graduation, where possible. This interview would serve to reaffirm the student's obligation to pay the loan at a specified time as well as verify that the student has been satisfied by the school's training.

14. Some of the team members suggested shortening or eliminating the grace period, after education termination, before principle payments begin. This might be more appropriate for noncollege students. There should be no waiver of interest payments during leaves-of-absence.

15. The Office of Education should publish a "report card" on both schools and lenders, relative to dropouts among student borrowers and delinquencies in loan repayments. This report card should be made available to all schools and lenders participating in the program, as well as a public record.

16. A system of bonuses and penalties should be established for lenders and for schools based on default rates. This could be in the form of differential insurance fees. School with high default rates among their students should be disqualified for the program.

17. Some of the team members suggested a fine for those schools who did not notify the lenders of student termination.

18. With regard to the collection effort, there were differing suggestions, but all team members concurred that O. E. should have a systems study performed on its collection efforts. Some of the members suggested that O. E. hire staff in the collection and legal area to provide for the collection effort that will be ongoing after the present defaults are worked down by an outside collection agency. Some of the team members suggested that ultimate collection effort be made by the Internal Revenue Service. On the other hand, some of the team members felt that the most cost effective procedure, considering the nature of the collection process and the characteristics of the personnel required, would be to contract this work out.

19. Some of the team members suggested that when the loan matured to the payout period, that it be purchased from the bank by the Social Security agency who would then collect it. The collection could be in the form of an incremented percentage of payroll deduction, perhaps matched, as is presently done, by the employer. Another technique that would make the payment income contingent would be to continue the standard percentage of payroll deduction on income greater than the present maximum for which social security deductions are made.

XII. TEAM VIEWS ON THE AVAILABILITY OF FUNDS

A. REASONS FOR UNAVAILABILITY

The primary reason funds are not available is the program is not a profitable use of banks' assets. The nominal rate is less than the cost of funds; the bonus is uncertain and does not cover handling costs; and until a changed law is effective, the noncarning use of assets while the claim is being processed further reduces the yield. In addition to the very high direct handling costs of these loans, the lenders feel there are unknown but substantial indirect costs involved; principally the requirements for bank officers to deal with the government, the schools, and the students and assure adherence to unclear and frequently changing government procedures. The growing uncertainty about the government guarantees is another detriment to the funds supply. An additional factor is the relative illiquidity of this asset use.

B. SUMMARY OF SUGGESTIONS

1. The funding for this program should be assured by legislative action. The legislation must be based on a survey to determine the educational needs that this program could fulfill, a commitment of the amount of funds to be appropriated for the program, and a definition of target so that the funds match the needs. This would assure the banks that the government guarantee would be honored promptly and would enable the subsidization of the program to be transferred from the banks to the tax payers.

2. Yield rate should be established that would not require the banks to subsidize the program. Because costs of funds are so volatile, the yield would be attractive to banks it tied to the costs of funds. A figure of the average federal funds rate for the quarter plus 3% is suggested. This would make the loans as attractive, except for liquidity, as the sale of federal funds and would not damage the profitability of banks that were required to purchase federal funds.

3. The banks should be certain as to what the yield is. They should know the formula by which it is calculated. If the federal funds rate is used as a basis, perhaps the average for the preceding quarter could be used.

4. In calculating liquidity and capital adequacy, consideration should be given to the fact that these loans are federally guaranteed.

5. An operational definition of due diligence in collection must be provided.

6. An operational definition of due dilligence in loan initiation (other than determination of credit worthiness) should be established and promulgated.

7. Eliminate procrastination and delay in the payment of claims.

8. Without investigating O. E. internal procedures, it appeared to the team members that some of the frustrations and indirect costs incurred by the lenders would be eliminated if O. E. would review its internal procedures and simplify, stabilize, and make uniform throughout the agency its dealings with and requirements of the banks.

9. O. E. should attempt to reduce the direct administrative costs of these loans by seeking to parallel the procedures with existing installment loan procedures. A study should be performed as to the feasibility of this suggestion. The study should not take as "given" existing legislation or policies. It should consider changing the procedural requirements as well as the procedures themselves to make the loans less expensive to administer, perhaps by modifying the requirements to fit existing routines.

10. O. E. should have a paper work simplification study done that encompasses the requirements of schools and students, as well as the lenders. In addition, the internal paper work of O. E. should be investigated. The study should be concerned not only with the economical way of meeting the requirements but with the established requirements as well.

11. O. E. should promulgate knowledge of the contract processors and endorse their guarantee of due diligence. This would eliminate uncertainty in the processing costs, and in the views of many banks, reduce processing costs.

12. Some of the team members felt that a procedure could be established that would obviate the submission of each individual loan for specific government approval of the guarantee. Some form of a blanket guarantee could be established for lenders with a good track record.

13. Some of the members felt that a mechanism for making these loans attractive could be established by authorizing some government agency to purchase these loans at a discount favorable to the banks or to use them as collateral for loans that were made at rates below the current cost of funds to the banks. Although the team did not specifically investigate SLMA, favorable comments about it were conspicuous by their absence.

14. It was suggested that the program is a form of "front end" social security. It is the disbursement of money at the beginning of a person's career rather than at the end of it, but for much the same purpose. Investment in education at the beginning of an individual's career will result in substantially greater payments into the Social Security fund and, more importantly, far less reliance upon Social Security benefits at the end of the career. If this logic be followed, it would make sense for the Social Security fund to buy the paper from the banks when the loan enters the payment period and then collect it by incrementing the payroll deduction. An additional suggestion is that, since the education is beneficial to both the employee and the employer, the present matching of payroll deductions could apply to the loan as well.

XIII. TEAM VIEWS ON ADMINISTRATION

A. THE PAPER WORK IS VERY CUMBERSOME FOR THE SCHOOLS

An interesting statistical indication of the operational problem is the following: one private university handling annually approximately four million dollars in federally financed student loans, affecting six to seven thousand students, reports that the processing of four thousand GSLP students requires approximately double the time as the processing of the three thousand NDSL financed students. In a public institution such as CUNY, this complication was said to discourage student applications or the followthrough on applications.

Schools must have personnel familiar with the intricate complex procedures of this program. Having a person familiar with the program that has other duties simply does not work. Therefore, the program is either sloppily handled internally or is shunned altogether due to the need of extra personnel.

All manuals refer to a Financial Aid Officer packaging student aid packages for the student. Most schools and most especially small proprietary schools do not have the availability of funds to hire a Financial Aid Officer. Therefore, all work is done on the side and is usually done with the least possible effort due to the other duties necessary to keep the school operating. There is no definition of a Financial Aid Officer.

B. PAPERWORK IN BANKS IS A PROBLEM

As was mentioned under the section of funds availability, the paper work is difficult, expensive, and frustrating for the banks. Banks also suffer from the staffing problem. These loans are usually administered by a very junior officer who stays on the job a matter of months.

C. MANUALS AND PROCEDURES INADEQUATE

Both schools and lenders perceive that manuals and procedural instructions are either missing or are out-of-date.

Most manuals available from the Office of Education are not up-to-date and are not specific as to how the program should be organized from a lender, a school, or a student viewpoint. Those manuals that are available refer to the legislation itself but do not refer to "interpretation" of the law.

It appears to those team members who looked at the manuals that they were written from the viewpoint of those enforcing the regulations rather than the user of the manual.

D. CONFUSION

It is apparent that there is a great deal of confusion in the directives and policy interpretations emanating from the Office of Education and from some sister agencies.

Each level of Office of Education personnel and each region publishes its own interpretations of the legislation and therefore there is no standard. Schools operating across regional boundaries are asking questions at different levels and the HEW gives different answers. What is approved in one region would not be approved in another region.

The Federal Trade Commission has a drive on warning students to beware of unsavory practices by proprietary schools and other schools who use recruiting agents. Students take this warning as an excuse to claim misrepresentation and then default on the payment of their loans—some even say the Federal Trade Commission says I don't have to pay.

E. APPLICATION DELAY

There is an unwarranted delay in the approval of applications.

The turnaround time necessary to get a loan on the guaranteed basis is much too great. This often causes the lender to not know whether he has in fact made a loan or not; the school to have a student already in school who has not in fact made financial arrangements; and a student who is unsure whether he can start school or whether he cannot. In short, the turn around time causes uncertainty in all areas and therefore causes a hands-off attitude by all concerned.

F. CLAIM DELAY

There is an unwarranted delay in claims payment. In addition to the previously mentioned reduction of funds availability, this delay increases administrative costs and is perceived by the lender as procrastination and deceit by the Government.

G. SUMMARY OF SUGGESTIONS

Much of the administrative problem would be alleviated by some of the suggestions proposed relative to making funds available and relative to collection of future indebtedness:

1. Elimination of the needs analysis for loans. Many of the comments about the extent of the paper work and procedures were concerned with the needs analysis.
2. Prevent the schools from lending. This will put the paperwork where the paperwork can be better handled.
3. Investigate the feasibility of paralleling bank paperwork to routine installment loans programs.
4. Perform the paperwork simplification study.
5. Endorse contract processing for banks by service bureaus.
6. Perform the assessment of O. E. internal procedures.

7. Fund the program based on knowledge of its size. This would permit staffing and procedures of O. E. to accommodate prompt application approval and claims payment.

8. Provide training for GSLP specialists at each qualified lender.

The following three suggestions are particularly important to the solution of the administrative problem:

9. Devise a procedure to permit blanket guarantees. Some team members suggested that the blanket guarantee could operate based on a joint approval of school and lender.

10. Better communication from the Office of Education—uniform interpretation of policy, up-to-date manuals, stabilized regulations, and clear statements.

11. Clarification of due diligence in collection and due diligence in lending.

XIV. TEAM VIEWS ON THE STRAINING OF INTEGRITY

The team members felt that a very serious defect in the program was the effect it had on training the integrity of students, schools, and banks and on the build-up of mistrust of the government.

A. GOVERNMENT

The mistrust of the Government is built up from several factors. The delay in claims payment is perceived as purposeful procrastination. The determination of the bonus to the yield is perceived by the banks as having been made without an objective basis that they trust. The diversity of answers and interpretations from the various offices and regions of HEW is perceived by the schools as devious; and the refusal of the government to make operational definitions of due diligence and other reasonably requested definitions aggravates this feeling. To the team members, it appears that the Government is acting or not acting out of confusion, but they appreciate the feeling of the schools and lenders that the Government is unwilling to make a decision in order to avoid making what might turn out to be the wrong decision.

The problems inherent in the definition of the target market have also raised doubts about the Government's actions. The present target is viewed by most administrators as being an impossible one, namely a low credit risk with a low default rate. It is also perceived that the target has been administratively changed from that which was legislated, in terms of students and the previously mentioned shift away from smaller, financially weaker educational institutions to the larger, financial strong ones. This is viewed as contrary to the public interest and other Government policy.

Finally, the imposition on the banking community to bear the subsidy of this program is viewed as a distasteful practice.

B. SCHOOLS

The design of the GSLP is also straining the integrity of schools. In attempting to increase their student population, they have, in many cases, sold the loan rather than the education and have misrepresented by omission or commission the fact that it is a loan program and not a grant program.

C. STUDENTS

The students, in many cases, feel that it is their right to obtain an education. Some of them falsify the needs analysis test, and many feel no commitment or obligation to repay the loan. Some of them are misusing the funds and some, upon graduation, intend to claim bankruptcy.

D. BANKS

The lenders feel they are receiving an inadequate rate on the money, are performing unnecessary and expensive administrative work, and view the Government as slow in performing its own obligations. They, therefore, use a minimal collection effort, put pressure on schools when claims payments are delayed, and enagege in practices which might be deemed illegal in pressuring schools to provide balances, higher rate on other loans, or in other ways compensate them for the provisions of these funds.

E. SUMMARY OF SOLUTIONS

1. As has been previously mentioned, the Government must make an informed commitment of funds based on a knowledge of the need.
2. The yield should be such that the general taxpayers rather than the banks are paying for the program. A figure of 3% over average federal funds is suggested.
3. An operational definition of due diligence must be provide.
4. The needs analysis for loans should be eliminated.
5. Prevention of schools from lending directly or indirectly would improve school practices.
6. The student should reaffirm his contractual obligations in regard to the loan and waive legal defenses as previously mentioned.
7. The requirement of a downpayment and routine monthly interest payments would also alleviate the integrity problem.
8. Some of the team members suggested that the checks should be endorsed by both the school and the student.

APPENDIX A.—SYSTEMIC PROPOSAL FOR IMPROVEMENT OF THE DELIVERY OF FINANCIAL ASSISTANCE TO STUDENTS SEEKING HIGHER EDUCATION

In this chapter, the author presents an outline of a system which seeks to place the management and operation of the student financial aid programs sponsored by the Office of Education in a more businesslike framework providing more clear cut lines of responsibility, direct methods of incentives, and penalties for institutions not performing up to standard. In addition, the proposal outlined here will hopefully result in reducing the cost of the government asssitance programs, both by obtaining funds at lower rates of interest and reducing default losses. It must be kept in mind that, in spite of the fact that the current GSLP is operating as if it is a program of the local banks and other lending institutions, the fact of the matter is that this is not true. Although the banks technically have the function of lending money and doing certain paper work, it is the Federal Government that is responsible for the loans. Thus, it is the Federal Government that is bearing the burden of the defaults and other expenses in the program.

The fact that the Government has not more directly assumed the responsibility for this program, in spite of the fact that it is responsible in the last resort, has resulted in students, schools and lending institutions not properly fulfilling the roles that they should fulfill. Thus, although the program ostensibly makes loans available to students, students in many cases are unable to find lending institutions which will make loans. Furthermore, banks which under the program should be happy and willing to make loans to students, do so only under pressure. Schools, which should be able to select students regardless of their personal financial situations, must spend inordinate amounts of time attempting to find qualified students and then match up with lending institutions. Many schools have not been able to do this and, therefore, are beginning to remove themselves from the GSLP.

Although the following proposal certainly will not be a complete cure-all for all the ills affecting the GSLP the author certainly believes it is an improvement for all concerned. In fact, there is no way to operate the GSLP on the same criteria that a normal banking or consumer loan program is operated for the very reason that the GSLP is a social welfare program as well as a financial program. This must be taken into account and the program must be administered using criteria applicable to such a social welfare program in addition to employing certain methods applicable to a typical finance operation.

The plan presented below focuses primarily on only types of financial aid, the BEOG and the student loans. It is the opinion of the author that these are the only two programs that should be utilized in student financial assistance. The other programs currently in effect, except perhaps for the National Direct Student Loan Program, do not appear to focus so completely upon the simple objective of providing funds for education of qualified students otherwise unable to obtain education because of financial problems. There is, however, plenty of room in the plan outlined below for the implementation and management of other student assistance programs. The National Direct Student Loan Program of course, does not require use of outside banking and collection institutions and thus will not fit in with the plan below. However, because of this program's emphasis to some extent on students, which in the opinion of schools, merit a loan rather than on all students who might need a loan. I believe it is a very important program and should be continued in its present form.

The plan that the author envisions would involve four institutions: (a) The National Educational Finance Corporation, a new institution, (b) The Office of Education, (c) Local or Regional Credit and Collection Contractors, and (d) Educational Institutions. In addition to these, of course, there are the students and the Congress. For simplicity, the proposal does not address the position of state operated student assistance programs.

Under the proposed plan, the educational institutions will be responsible for enrolling students qualified to enter the educational program and assist the student in filling out his loan applications. The school's function under the plan envisioned here will not be as a lender, and no school will be approved as an authorized lender. The plan provides that if a student is accepted and if his application indicates financial need, as described below, he will be assured of obtaining funds to meet his educational expenses. However, neither the student nor the school will have the responsibility of scouring the financial community to find a lender willing to make a loan. The student's responsibility will be to attend school and obtain an education. With the assistance of the school's financial aid officer, the student will simply fill in the forms for financial assistance.

One copy of the student's financial assistance application will be sent to the Office of Education. The Office of Education will have a number of responsibilities. It will establish criteria to determine, based on the student's application, which will include a needs test, how much of the funds required should be granted from a non-repayable BEOG and how much should be approved for a student loan. Thus, each student will receive consideration for a certain sum of his required need in the form of a grant and a certain sum in the form of a loan. If the application is properly filled in, the predetermined criteria established by the Office of Education will automatically determine how much of the financial assistance will be in the form of a grant and how much in the form of a loan, subject to any maximums that the Office of Education will determine for grants. The Office of Education, however, will not actively investigate the information on any student financial assistance application, as this will be the responsibility of the Credit and Collections Contractors.

Another function of the Office of Education will be that it will, itself, engage a contractor or a number of contractors, who will be directly responsible for accrediting schools. If there is too great political opposition to this type of plan, from, among others, the currently existing accrediting organizations, the Office of Education should expand its accrediting division with the objective of removing the accreditation from certain schools based upon the inferiority of their educational programs. The purpose of this would be to disallow federally sponsored loans and grants to students attending these disaccredited schools.

Another function of the Office of Education will be to accumulate statistics on student complaints, on defaults on student loans, on usage of the Office of Education sponsored financial assistance program, etc., with regard to each category of educational institution and student benefiting from federal student aid programs. This information will be obtained from the applications submitted by the schools as well as from reports submitted to the Office of Education from the Credit and Collection Contractors. Based on these statistics, the Office of Education will be able to develop criteria for the termination of schools' eligibility to enroll students who receive federal student financial assistance.

In addition, the Office of Education will evaluate the local and regional Credit and Collection Contractors for the purposes of determining incentive payments based upon outstanding performance as well as determining penalties in the form of removal from the program as more full discussed below.

The other functions currently being performed by the Office of Education will be undisturbed.

In addition to the copy of the student financial assistance application that the educational institutions sends to the Office of Education, the institution will send another copy to the local Credit and Collection Contractor. This institution will be the backbone of the new plan outlined here. This Contractor will be responsible for doing the necessary credit and other informational investigation on the student loan application as submitted by the student with approval of the educational institutions. This Contractor will initiate a line of communication directly with each student who receives financial assistance. Based upon criteria established by the Office of Education and the corroboration of the information on the financial assistance application done by this Contractor, the Contractor then determines the amount BEOG and the amount of student loan that will be offered to the student and notifies the student accordingly.

At the appropriate time, at ninety-day intervals, the Contractor transmits the check for grant or loan as the case may be to the educational institution made payable to the student as payee. Upon endorsement by the student, the checks may be deposited by the educational institution. In addition, through periodic mailings to student borrowers, the Contractor keeps abreast of the address of the students as well as the students' continued attendance in school. Attendance is confirmed on a periodic basis by direct communication with the educational institution.

At the appropriate time, based on its periodically updated information, the Contractor will begin to collect repayments of student loans. This collection procedure should begin in a timely manner. If the Contractor experiences delays or defaults on collection, it will be permitted to implement stringent collection procedures including, if necessary, the use of outside collection agencies (if the contractor is not itself a collection agency) as well as litigation.

Based on the success of collection of student loans these Contractors will be rewarded by incentive type payments. In addition, each Contractor will receive a straight management fee based upon the number of loans it manages. In fact, the author suggests that these Contractors be engaged by the Office of Education, on the basis of lowest qualified bidders. Bids will be invited from qualified banks, lending institutions and finance companies. These Contractors, when engaged, will not be permitted to be affiliated in any way with any educational institution whose students obtain loans through these Contractors.

These local and regional Credit and Collection Contractors would also be responsible for keeping detailed statistics on their default problems by school, as well as by type of student. These statistics on all of the Contractor's activities will be sent to the Office of Education so that the Contractors themselves will be able to be evaluated by the Office of Education.

As a part of the incentive payment system to be established for the Contractors, a system will have to be developed to determine the amount of anticipated default loss expected, based upon credit ratings of the student borrowers. This rating system will have to be developed de novo, as student borrowers are a totally new category of borrowers for which standard commercial credit ratings do not currently exist. The Contractors' collections, based upon these credit ratings, will be used in part to determine the incentive fees. Of course, experience over the years will be required to refine this system.

The fourth basic institution, the National Educational Finance Corporation, ("NEFC") will be responsible for supplying the funds for both the student loans and the BEOG's to the local and regional Credit Collection Contractors. One copy of each student loan application together with the Contractor's determination of the amount of the grant and the amount of the loan will be sent to the NEFC each ninety days. Based on these demands for funds, the NEFC will remit to each Contractor the amount of funds it requires so that the Contractor may make timely disbursements to students. Based upon the current requirements for funds as well as the projection of future demands for funds for student assistance, the NEFC will obtain financing. The NEFC will raise its funds by selling U.S. Government guaranteed notes and bonds to the public through public offerings.

In addition, the NEFC will be permitted to negotiate for funds from banks, pension funds, and other sources of capital for the direct placement of U.S. Government guaranteed notes and bonds, although this source is not critical. It is suggested so as to enable local and regional Credit and Collection Contractors who are banks to obtain funds directly from themselves with a Federal Government guarantee on such advances. In addition, the National Educational Finance Corporation will, each year, submit its budget to Congress, which will request funds for the payment of grants and for the payment of interest and overhead costs for the maintenance of NEFC.

Each year Congress will also grant funds to the Office of Education as part of its budget to defray the anticipated costs of the local and regional Credit and Collection Contractors which the Office of Education will be responsible for engaging and overseeing, as indicated above.

Student loan repayments will be made directly to the local Credit and Collection Contractors which will turn the funds back to the NEFC. The brief outline of a proposal for a new framework for managing the student financial aid program presented above attempts to create a more direct structure for the management of the programs. It attempts to put professional expertise where such expertise is required and to motivate this expertise to perform to the best of its ability. In addition, it attempts to place the responsibility for the program where the ultimate responsibility lies, that is, with the Federal Government, and it seeks to more clearly establish the lines of authority.

APPENDIX B.—REVISION OF STUDENT LOAN SYSTEM

We will not attempt here to redesign a student loan system nor write legislation for a new system, but we will point out some of the things which must be considered. First, the present system is a failure and therefore should be scrapped rather than modified. A new system to supply funds to college students for education must be designed, either as a grant program or as a loan program. It would appear that everyone in this country should qualify for a grant for educational purposes. The program that is designed should keep in mind that the grants are to benefit the students, not the educational institutions. This would dictate that the money go to the educational institution as it is providing the education rather than before the education is provided.

A new loan program should be designed by lenders as a loan program and not as a subsidy program for students. The program could be handled in conjunction with a grant program, allowing the funds from the grant to be parceled out along with the loan funds. Lenders should be held responsible for their lending activities and schools should be held responsible for the education and for coordination with the lender.

When the legislation is written, it should be worked on a trial basis for at least one to two years to determine if it works before a large commitment of funds is invested.

The present system wasn't deemed a failure until $6,000,000,000.00 was outstanding.

Financial institutions in this country can fulfill the role of lenders for a new program but the program will succeed only if these institutions participate in its design. Once a program is designed which will promote sound loans, the Government can then develop successful secondary markets for the channeling of private investment funds into the education field. Until a workable program is designed, any attempts to develop a secondary market will be unsuccessful.

If the public, in general, becomes aware that there is a possibility of $1,500,000,000.00 of $6,080,000,000.00 in student loans outstanding, the concept for "Sallie Mae" will fail. Sallie Mae notes and bonds will not be purchased by investors unless the bonds carry the full guarantee of the Federal Government.

Mr. O'HARA. Our final witness today is Mr. James A. Jung, who is executive secretary of the Higher Educational Aids Board of the State of Wisconsin.

He is accompanied by Mr. Dick Johnson, who is deputy to Mr. Jung and Mr. Ernest Smith, who is administrator of student financial aid in the State of Florida.

Mr. Jung, we would like to hear from you.

STATEMENT OF JAMES A. JUNG, EXECUTIVE SECRETARY, HIGHER EDUCATIONAL AIDS BOARD, STATE OF WISCONSIN, ACCOMPANIED BY RICHARD JOHNSON, DEPUTY TO MR. JUNG, AND ERNEST SMITH, ADMINISTRATOR OF STUDENT FINANCIAL AID, STATE OF FLORIDA

Mr. JUNG. Thank you, Congressman O'Hara.

Mr. Chairman, distinguished members of the Education Subcommittee, I am James Jung, executive secretary of the State of Wisconsin Higher Education Aids Board. It is again a pleasure for me to be a part of your deliberations on the future directions of student financial aid generally, and the guaranteed student loan program specifically.

You and your committee are to be complimented for taking the whole of title IV under your purview at this early date, and for seeking an integrated and balanced solution to the problem of student financial aid.

I think we would all agree that loan assistance is the least desirable form of financial aid. However, I think we would all agree that the reality in which we find ourselves dictates that loan aid, like the common cold, is here to stay. It would seem that even if BEOG were fully funded, a substantial work-study program established, a fully funded SSIG implemented, the need for a comprehensive and flexible loan program would remain.

When I was before your committee on February 15, I made two general observations: (1) That the solution to the student financing problem must be a joint Federal-State effort, and (2) that the guaranteed student loan program is an important part of that solution.

I reiterate those general observations today, and make a specific request for an amendment to the loan program which will provide the various States with the flexibility needed to develop loan programs which can accommodate particular State environments and objectives within Federal guidelines.

This proposal has the active support of several States which have now, or are considering, the adoption of direct State loan programs. These States include Minnesota, Texas, Florida, North Carolina, New Mexico. We are all active member States of the National Council of Higher Education loan programs, and our testimony today is intended to compliment the testimony that will be offered on behalf of the council on June 30.

As time goes by, Mr. Chairman, I think there will be other States that will indicate support for such an amendment as is described in my testimony and I think you will be receiving letters accordingly.

In my previous testimony, which is attached as an appendix to my statement today, I urged that you consider legislation which would at least allow interested States the flexibility to develop guaranteed student loan programs which meet the following objectives:

1. Establish a joint Federal-State partnership which is mutually complimentary in the delivery of loan resources to students.
2. Recognize the new 18-year-old age of majority.
3. Provide equity and access to all students including those from middle-income backgrounds.
4. Incorporate the progressive taxation of future incomes of students rather than require States to maintain the present regressive repayment system.
5. Provide insulation from short-term fluctuations of the money market.
6. Provide incentives for students to remain with the program rather than default.

In my previous testimony, I outlined the basic features of a proposed Wisconsin program which would meet most of those objectives. These features include:

1. Income-contingent repayment.
2. A maximum repayment period of up to 25 years.
3. A joint Federal-State after school interest-subsidy program.
4. A Federal guarantee of principal.

5. State administration.

6. Use of State and private capital resources.

It is clear that it will be most difficult for Wisconsin to implement such a program without Federal participation without the Federal-State partnership.

I recognize, Mr. Chairman, that what Wisconsin may wish to do is certainly not the only alternative available and may not be the most desirable.

There is much we must find out, I submit, before we can look at a program and say, "This is it." One thing that is known, however, is that there exists in the several States, interested, knowledgeable, and competent people who share the common objective of financially insuring a postsecondary education opportunity for all people and who recognize the key role played by the GSL program in meeting this common objective.

Unfortunately, the present law and other current Federal initiatives act as disincentives which severely limit the options available to the States in the development of more viable student loan programs. These disincentives include:

1. 80-percent guarantee: The law presently provides that States which administer guaranteed student loan programs receive 80-percent Federal guarantee while States without programs receive a 100-percent guarantee under the federally insured student loan program.

2. Inflexible repayment provisions: The law presently provides that all loans must be repaid within 10 years after the student leaves school. No flexibility exists which would allow the States to develop income-contingent, variable, or extended repayment schedules.

3. OMB Circular A-70 (revised): The Office of Management and Budget proposes to release Circular A-70 (revised) which in its present form would cripple State direct loan programs funded through tax-exempt bonds. Essentially, the new regulation would remove the tax-exempt status of State bonds issued to support programs which also receive a Federal guarantee.

4. IRS arbitrage regulations: Section 103(a) of the Internal Revenue Code classifies some student loan bonds issued by States to support direct loan programs as arbitrage bonds and therefore taxable, through disallowance of bad debt losses incurred through student loans and exclusion of the expenses to administer such programs because such expenses are appropriated directly by the States.

By eliminating these disincentives and adopting more flexible provisions, the Federal Government would enable interested States to make changes and reforms in the program to meet unique needs and circumstances.

I think there are two reasons why major changes and reforms in the guaranteed student loan program are not likely to occur nationally in the immediate future.

The first reason is the "natural staying" force of the status quo. In the absence of a broad national consensus for specific change, the power of the status quo seems nearly unchallengable.

The second reason is that lack of "hard" information and experience about the potential long-term effects of possible major changes in the guaranteed student loan program makes the forming of a national consensus nearly impossible.

While we may not know or agree about the specific solutions to the existing problems in the guaranteed student loan program, we do know and I hope agree, that the possible long-term consequences of ignoring or glossing over the problems of the GSL program are unacceptable.

Therefore, I make a plea, Mr. Chairman, and members of the committee, that a simple amendment be added to the existing legislation which allows and encourages the States to become an active partner in fully achieving the goals of the guaranteed student loan program. From that experience, there might well emerge a national consensus.

An example of an amendment which would receive the support of those States supporting my testimony is along the lines of the following:

> Sec._____. The Commissioner of Education is authorized to provide approval to any State which wishes to develop a comprehensive State plan to assure the availability of guaranteed student loans, which would benefit from Federal insurance, to residents of its State. State plans may include such features as the use of State capital for making loans, variable repayment schedules over more than ten years, income contingency repayment schedules, subsidies during repayment where necessary, and other modifications that go beyond the current Federal program but which could, with appropriate Congressional authorization, be incorporated as part of a national system of guaranteed student loans.

Three last points, Mr. Chairman—a partnership implies equal responsibility and I feel strongly, personally, that any State wishing to take advantage of the opportunities for innovation allowed under this amendment ought to be required to share costs with the Federal Government.

Second, in my judgment, Mr. Chairman, this is the best approach at this time for Congress to assure themselves that an effective and viable GSL program will be run by the States in lieu of a massive inflexible and centrally controlled national program.

Third, time is of the essence and I would urge and plead that every reasonable effort be made to achieve congressional acceptance of an enabling amendment this session.

I would be most happy to respond to any questions.

Thank you.

Mr. O'Hara. Mr. Jung, you have been operating a State guaranteed loan agency. Maybe you would like to comment on some of the suggestions that have been made to us by the previous witness and others with respect to the guaranteed loan program in light of your own experience with the State guarantee agency. What kind of experience are you having with default rates and what kind of students and institutions are producing higher defaults than others and what kind of things, if you were just going to change this program, do you think might make good sense?

Mr. Jung. Mr. Chairman, our default rate under both our direct and GSL program is about 2.4 percent and that is based on hard figures.

Mr. O'Hara. 2.4 percent loans or borrowers?

Mr. Jung. Defaults are based on total vulnerable, not total outstandings.

We became a State guarantee agency at the time the program was first established and over the years we have established a relationship with over 500 private lenders and we work, to keep a very close relationship with them.

For example, as soon as a note is 60 days delinquent on a loan made by one of our private lenders, we get involved and try to restore a relationship between the student and the private lender.

I think it is true to say that 100 percent of our students who have needed loans have been able to get them one way or the other either from the State Direct or G.S.L. program. If we come across a student who needs a loan we sometimes intercede on the student's behalf with a private lender.

I think the students over the years who have borrowed, and in Wisconsin we have a loan program since 1933, have been remarkably responsible in wanting to pay back the money that has been lent to them.

I don't think an education is like buying a car or television set and I don't think that the techniques that are acceptable and credible when one purchases a television set or a car on credit are directly applicable.

Most of our people who default have to default because of the various incentives in the program which essentially require them to default.

They do not have any money. Those that do have money, or those that are able to pay I think generally do pay, but they may not be able to make the payments as required by them under inflexible and rigid schedules.

I would submit, Mr. Chairman, that if we were to recognize and take advantage of the good faith of our student borrows, and I don't think Wisconsin is unique, there is reason to believe that students are good risks if we recognize that all people are not financially able in exactly the same way, and if we provide incentives for them to participate in the program, we could greatly reduce the default program.

I think in order to do that, though, relationship has to be between the State and Federal Governments. We know our private lenders or we ought to be made to know our private lenders and we ought to have an integrated program of grants and work and loans in conjunction with the Federal Government and build a consistent mosaic of aid so that 100 percent of people, for a variety of purposes, are able to gain the access to our post-secondary educational establishments.

Mr. O'Hara. Yes. You have been running a direct loan program since when?

Mr. Jung. 1933.

Mr. O'Hara. Well, you have default experience and I don't know if you arrived at your figures in exactly the same way as the Office of Education does, but it would seem to be better than the default rates that the OE witnesses were talking about here the other day, and I wondered why that is. Do you have any experience, are you tougher in giving loans, are your colleagues' procedures different?

If your experience is better than the experience that was testified to the other day, why is it; do you know?

Mr. Jung. Well, we do have a professional collection organization as part of the agency. They are State employed. These are unique types of loans. They are not a regular consumer loans. That is taken into consideration in our collection practice. But we have professional collectors whose business it is to help people, remind them of their obligations. Secondly, I think, over the years, Wisconsin has built good faith with their students.

For example, we do not use our insurance fee to support administrative expenses, but we use it to support the guaranteed fund, to expand our capacity to make loans available to other students.

We make an effort to work with student leadership getting them involved in our administrative and policy problems, and I think over the years that effort has become generally known to the student population. We refer defaulted loans where there is money to collect to the Attorney General and he has encountered substantial success in using legal remedies available to him.

But what we don't do is send defaulted loans and delinquent accounts to the Attorney General where there is no money to collect. We do not just try to dump it off and get rid of it ourselves, so that we can get off of the hook.

Mr. O'HARA. That is very interesting. Your experience is that much better. I think that we have a lot to learn about ways in which to hold down default figures. I don't know how we are going to solve that problem. But I think one of the things we have to be doing is examining the experience of the various State agencies and comparing their experience one to the other and seeing what we can learn from that.

Mr. JUNG. Mr. Chairman, if I might add, I have a great deal of sympathy for private lenders who expressed concern about relating to OE. As a State agency we hardly know what OE is doing from day to day and from time to time and when I think of a private lender it must be a total nightmare for them to deal with OE. We are used to it.

Mr. O'HARA. Mr. Smith, did you have something to add?

Mr. SMITH. Yes, sir. I might add something. I didn't come to plead the case, but to give another point of view, and as lenders of only 18 months duration presently, maybe we don't know enough about them yet to be able to argue against them that much, but we have two main concerns and I might say further that the South may be more progressive in that particular point in that we have good cooperation of the regional office in Atlanta.

Our main concern is the length of turnaround time. If we stay within the existing program now, we would like to see something formalized with respect to direct late exchanges for high volume lenders or exercising the certificate of comprehensive insurance provided for in the law.

Those are our two main concerns, is the fact that at times we have had to wait as many as 14 weeks in a turnaround time and that, of course, is counterproductive to what you intended the program to do. At the same time, as Dick's and Jim's operations are conducted they turnaround in 24 hours and if our people knew that they would say, "Why in the world don't you become likewise."

What is good for Wisconsin is good for Wisconsin and what is good for Florida is good for Florida, we feel, and that is the reason we support the particular amendment that provides flexibility for the States and in a way would be the revenue sharing type of approach to where we had ability, through legislative mechanisms, to make local decisions within a broad framework.

[The following letters were submitted for the record:]

Minnesota Higher Education Coordinating Commission,
St. Paul, Minn., May 24, 1974.

Re federally insured student loan program.

Hon. James G. O'Hara,
Chairman, Special Subcommittee on Education,
U.S. House of Representatives,
Washington, D.C.

Dear Congressman O'Hara: I understand that James Jung of Wisconsin will testify before your committee next week and that as part of his testimony he will urge provision for flexibility to permit states to develop student loan programs which include features designed to make student loans a more effective means for meeting student financial assistance needs. We support such flexibility.

The legislation passed by the Minnesota State Legislature in 1973 authorizing a state student loan program included provisions for repayment of loans on a modified income contingent basis in order to assure that repayment of loans would not become an undue burden for the student borrowers, particularly in the first few years following post-secondary education and in order that borrowers who experience unanticipated financial emergencies would not have to be determined to be in default so long as they continued to make an effort to repay loans over a longer period of time. Flexibility in the provisions of the Federally Insured Student Loan Program would facilitate implementation of such features to improve student loan programs.

A more pressing problem is pending federal action which would effectively destroy and eliminate the Federal-State partnership arrangement under which Minnesota presently makes loans for post-secondary education. I refer to Office of Management and Budget Circular No. A70 which would prohibit a state from issuing tax exempt revenue bonds in order to obtain funds for student loans. Unless the Office of Management and Budget reverses its proposed position or unless the Congress takes initiative in establishing federal policy with respect to the issuance of tax exempt bonds to obtain funds for state student loans, which are insured under the Federally Insured Student Loan Program, the Minnesota State Student Loan Program will be discontinued due to lack of finances.

You may be interested in knowing that the decision to establish a state student loan program utilizing the benefits of the Federally Insured Student Loan Program was based on recognition of the fact that Federally Insured Student Loans were not accessible to all Minnesota residents. While the banking community made a significant effort to provide service under the Federally Insured Student Loan Program, students from the more sparsely populated rural areas of the state often did not have access to Federally Insured Student Loans, students from low-income families experienced greater difficulty in obtaining Federally Insured Student Loans than did students from higher income families, and the availability of loans varied from time to time according to economic conditions. Accordingly, the legislation to establish a state student loan program utilizing the benefits of the Federally Insured Student Loan Program was intended to make Federally Insured Student Loans generally accessible to all post-secondary education students on a continuous basis without regard to factors in the money market. It is significant that not a single banker opposed the legislation establishing the State Student Loan Program.

The decision to obtain funds for loans made under the State Student Loan Program through the issuance of revenue bonds was based on a realistic assessment of the need for loans and the prospects for sufficiently large appropriations of tax funds for meeting the total need. We estimate the need for a minimum of $30 million per year in order to meet needs for Federally Insured Student Loans. The use of tax exempt revenue bonds to obtain funds necessary for student loans does not reflect a reluctance on the part of Minnesota to make a substantial investment for post-secondary education. Minnesota's appropriation for State Scholarships and Grants-in-Aid has been increased from $600,000 for the academic year beginning in the fall of 1968 to $8 million for the fall of 1974. Moreover, Minnesota ranks 13th among the 50 states in per student appropriation of tax funds for operating expenses of higher education, 19th in per capita appropriation and 11th in percentage of personal income represented by total capital and operating expenditures for higher education.

In summary, I urge your full consideration of the proposal for additional flexibility in the Federally Insured Student Loan Program for the states and, more important, I urge responsible Congressional action to permit states to continue to obtain funds for Federally Insured Student loans by issuing tax exempt revenue bonds. Obviously, additional flexibility will mean little to a state which is precluded from obtaining funds necessary for making student loans.

Respectfully yours,

RICHARD C. HAWK,
Executive Director.

COORDINATING BOARD,
TEXAS COLLEGE AND UNIVERSITY SYSTEM,
HINSON-HAZELWOOD COLLEGE STUDENT LOAN PROGRAM,
Austin, Tex. May 23, 1974.

Hon. JAMES G. O'HARA,
Chairman, House Subcommittee on Education,
House of Representatives,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: Mr. James A. Jung, Executive Director of the Higher Education Aids Board for the State of Wisconsin has reviewed with me the testimony that he plans to present to the Subcommittee on Education on May 30, and I would want you to know that I heartily endorse the concept that he will be presenting. I feel that it is vital that the state-federal partnership in the area of insured loans for meeting educational costs of students should be broadened. I urge that legislative provisions should encourage states to be innovative in the development of guaranteed educational loan programs that are tailored to utilize the resources and to meet the needs as they exist in the separate states.

In keeping with the above, I would like to especially emphasize Mr. Jung's points regarding the detrimental effects that would result to student loan programs that are either now operating or else are being planned for operation in a number of states if Office of Management and Budget Circular A-70 (revised) and/or Internal Revenue Service's arbitrage bond classification regulations are applied without excluding student loan programs. In such event, the increased flexibility being sought for the states by Mr. Jung and others will have died in the borning.

Additional optional features to a revised program of insured educational loans that I advocate, but which are not mentioned in Mr. Jung's planned testimony, include loans for educational costs to parents of students. Such loans should be at reasonable interest rates with long term (10 to 14 years) repayment provisions. Hopefully, such a program might help to counter the incentive that now exists for students to be classified as financially independent of parents and thus qualify for more financial assistance than otherwise; also, defaults on such loans to parents might well be considerably less than if the same loan had been made to the student member of the family.

Another optional condition that I encourage is that a lender should be permitted to require a co-signer on insured student loan notes. My experience is that collection from the student borrower is considerably better whenever there is a co-signer to encourage the borrower to pay.

Thank you for the opportunity to express these views, and I hope that you will be sure to let me know whenever I can be of service.

Sincerely,

MACK C. ADAMS,
Head, Division of Student Services.

STATE OF FLORIDA DEPARTMENT OF EDUCATION,
Tallahassee, Fla., May 24, 1974.

Hon. JAMES G. O'HARA,
Member of Congress,
Chairman, Special Sub Committee on Education,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: It is my understanding that you are conducting formal hearings on Thursday May 30, 1974, concerning the Guaranteed Student Loan Program. As you are aware, The Florida Department of Education is an eligible lender in the Federal Insured Student Loan Program. Since beginning our participation in December, 1972, we have made loans to over 3,500 students totalling approximately $4,000,000. We are proud to have been able to assist these students in their pursuit of post-secondary Education in Florida.

We are however, concerned in two particular areas dealing with the program. The first is related to the time required in securing Federal insurance. We feel that at times the lengthy process has proven to be disincentive to students. It would appear there are at least two clear alternatives within existing legislation. The law provides for a certificate of comprehensive insurance. It is my understanding that this provision has never been implemented. A second alternative would be to formalize a process of direct data exchange between large lenders and the Office of Education in Washington. Such a procedure would allow present regional office and contractor processing to be by-passed. We are of course aware that extreme caution and diligence on our part would be required and practiced.

Our second concern deals with impending policy changes on the part of the Office of Management and Budget in the issuance of Circular A-70, revised. Since our participation as a lender in the insured loan program is financed by tax-exempt revenue bonds, federal policy contrary to this method of financing would severely limit, if not prohibit, our participation. We urge careful examination by the Congress.

Finally, it is my understanding that an amendment providing for local flexibility in state direct loan programs will be suggested during the upcoming hearings. Florida supports the effect of the amendment, and urges your subcommittee to recommend acceptance.

If we may be of assistance to you and your subcommittee in your consideration, please do not hesitate to call on us.

Sincerely yours,

RALPH D. TURLINGTON,
Commissioner.

Mr. O'HARA. Thank you very much, gentlemen, for appearing before us today.

I have enjoyed your testimony and I assure you that your suggestions will be seriously considered by the subcommittee.

The gentleman from North Carolina—Mr. Andrews—a distinguished member of this subcommittee has recently introduced legislation relating to the tax status of amounts forgiven under some of the student loan programs. Although Mr. Andrews' bill was referred to the Committee on Ways and Means, he has asked to be heard by this subcommittee with regard to the issues involved in his legislation. The Chair recognizes the gentleman from North Carolina.

STATEMENT OF HON. IKE ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ANDREWS. Mr. Chairman, this morning a young woman from Greensboro, N.C., telephoned my Washington office. She was in tears.

A teacher, she had just received one of those tax-due notices which are becoming infamous in my State.

The Internal Revenue Service had, very abruptly and without warning, dunned her $418, which the IRS claims she owes in back taxes because the loan she obtained contained the forgiveness provision for repayment, and the IRS is now maintaining that such loans represent taxable income.

This young woman is to be married later this month, and so this retroactive tax-due notice represents a really severe financial setback to her.

She is not alone. In recent months, a large number of students and former students in North Carolina who are recipients of educational loans with the forgiveness provision have likewise been shocked to receive these notices. I understand that this will be repeated in all of our 50 States.

My office has been advised by Ms. Jan Proctor, administrator, educational loan program, North Carolina Department of Human Resources, that these assessments have ranged from $200 to $1,000 per year.

These tax-due notices were sent out following a little-noticed IRS ruling that appeared in the Federal Register in June of last year. That ruling maintained that these particular educational loans amounted to taxable income. Among these are the national direct student loans and its predecessor, the national defense student loans; State teaching loans; State medical education loans; and the law enforcement educational program loans.

We have learned that the National Direct Student Loan Office at the Office of Education has been trying for 6 months to get the IRS to approve a draft designed to inform the participating colleges and universities of the date their loans became taxable.

There is some confusion with regard to the taxability of national direct student loans because the predecessor, the national defense student loan program was granted an exemption by IRS in 1961. Prior to the IRS ruling, the Office of Education assumed that the national direct student loans would receive the same exemption. As a result of the ruling, however, they are now unsure and are therefore assuming that they are taxable until the IRS informs them otherwise.

We have checked with the IRS on a number of occasions and all we have been able to learn is that they are studying the matter and may have a response in about a month.

In addition, the law enforcement assistance program education loans are in question as to their taxability. LEAP received a copy of the proposed ruling, and in March of 1973—almost 3 months before the final ruling was published—asked the IRS for clarification of the taxability of their educational loans. As of today they have not received that clarification.

Apparently, young people in North Carolina are among the first to be hit with these tax-due notices. I am told that the IRS in my State is especially aggressive, and while this spirit is certainly commendable, I would suggest that, in this case, it is misdirected.

According to information my office has received, the IRS in North Carolina copied the records of the North Carolina Department of Human Resources, from which they obtained the names and addresses of loan recipients and thereby sent them the tax-due assessments.

Mr. Chairman, it is my view that these revenues were unanticipated by budget officials and constitute, in effect, a windfall profit to the Government.

The IRS ruling was arbitrary and unfair in that it hit persons with retroactive tax-due notices dating back 3 years, or as far as the statute of limitations will allow. Loans cancelled between 1954 and 1970 were not considered taxable income and recipients were not required to pay taxes on them. The fact that a relatively large number of recipients were within the 3 year statute of limitations should not, in my opinion, make their loans any more taxable than the thousands before them which were not. I feel that the administering agencies should have time to learn that the loans they are contracting now are taxable and so be able to inform the applicants.

These persons are being or have been trained in health professions, law enforcement and as teachers, and the forgiveness provision in their educational loans means that repayment may be forgiven through service in inner city, rural and other areas experiencing a shortage in critically needed specialties. Such areas are designated by agencies of the Government and not by the loan recipient.

Among those affected are students and graduates in nursing, medicine, law enforcement, teaching, dentistry, pharmacy, medical technology, physical therapy, optometry, and other critical professions.

According to the information my office has received, neither the students nor the administering agencies had any idea that educational loans with the forgiveness provision were subject to being considered taxable income.

There may be some merit in treating all educational loans, regardless of the repayment provisions, as taxable income. However, that is an issue separate and apart from the one of permitting the IRS to surprise several hundred thousand persons with retroactive tax-due notices.

What is at issue is the retroactivity of these loans, and on April 25, I introduced a bill, H.R. 14392, which, if enacted, will enable those who have already paid their taxes to file for a refund.

My bill was referred to the House Committee on Ways and Means, and my distinguished colleague, the Honorable Wilbur Mills, chairman of that committee, has advised me that his staff has already requested departmental reports on this bill.

In an effort to pursue every possible avenue to assist these individuals, we wrote Commissioner Alexander of the IRS, urging that he take steps to reverse the retroactivity of the ruling administratively. The answer received from the IRS states, in part:

> Section 7805 of the Code provides, in effect, that all published rulings apply retroactively unless otherwise specified. Any nonretroactive application of Rev. Rul. 73-256 can only be made after a careful analysis of all the facts and circumstances involving each specific loan program. At the time a request is made, as to a specific loan program, to apply Rev. Rul. 73-256 prospectively, all of the information pertaining to the program, including all of the facts and circumstances under which the loans were granted and the conditions under which the loans are to be repaid should be submitted.
>
> We are presently taking the prospective treatment of Rev. Rul. 73-256 into consideration on an individual loan program basis which precipitates a thorough examination prior to making a final decision.

For further clarification on the contents of the letter, we called the IRS and they explained that no loan program would be considered for exemption unless and until an individual—as opposed to an administering agency—visited IRS and asked for exemption under a specific loan program. At that time, the IRS would "prepare a file" on that particular loan program and would then take the taxability of that particular loan program under advisement. In other words, unless an individual brings a specific loan program to the attention of the IRS, no action would be taken to reconsider the applicability of the ruling.

This appears to me to be a complicated and uncoordinated manner of handling the situation by the IRS. Additionally, we have learned that the IRS is requiring lump-sum payments for the loans they consider taxable and is charging interest from the due date of the return through the date the individual agrees to pay the tax. My staff and I in the past several weeks have continued our efforts to enlist additional support for this legislation.

It is my intention to circulate H.R. 14392 for cosponsorship.

We have obtained the backing on this bill from nine national organizations: The American Nurses Association, the National Association of Student Financial Aid Administrators, the American Association of Community & Junior Colleges, the American Council on Education, the Association of American Medical Colleges, the American Optometric Association, the American Student Optometric Association, the Association of Schools & Colleges of Optometry, and the American Veterinary Medical Association.

Mr. Chairman, although I take some degree of satisfaction that this bill bears my name, such considerations are very secondary to the problem confronting the many young people who are struggling to come up with enough money to pay the IRS at the same time they are completing their education or are just beginning their chosen careers.

I will continue to enlist support for this measure among my colleagues and among the many educational and health organizations across the Nation. The support of this committee would be deeply appreciated, not only by me, but by the many victims of this unfair ruling.

Thank you, Mr. Chairman.

Mr. O'Hara. The Special Subcommittee on Education will now stand in adjournment until Monday morning when our hearings on title IV will continue.

[Whereupon, at 11:30 a.m., the subcommittee adjourned, to reconvene Monday, June 4, 1974.]

Staff Note.—On June 11, 1974, Mr. Andrews introduced H.R. 15307, H.R. 15308, and H.R. 15309, bills identical to H.R. 14392. The following members cosponsored these bills which were referred to the Committee on Ways and Means.

Mr. Bafalis, Mr. Baker, Mr. Benitez, Mrs. Boggs, Mr. Brinkley, Mr. Broomfield, Mr. Brown of California, Mr. Buchanan, Mr. Burke of Massachusetts, Mrs. Burke of California, Mr. Butler, Mr. Carney of Ohio, Mr. Clay, Mr. Cohen, Mr. Coughlin, Mr. Dellenback, Mr. Dent, Mr. Dulski, Mr. Duncan, Mr. Eilberg, Mr. Fascell, Mr. Fauntroy, Mr. Findley, Mr. Fisher, Mr. Forsythe, Mr. Fountain, Mr. Frey, Mr. Gaydos, Mrs. Grasso, Mr. Green of Pennsylvania, Mr. Harrington, Mr. Hawkins, Mr. Hechler of West Virginia, Mrs. Holt, Mr. Huber, Mr. Jones of North Carolina, Mr. Kemp, Mr. Lehman, Mr. Luken, Mr. McKay, Mr. Martin of North Carolina, Mr. Meeds, Mrs. Mink, Mr. Mitchell of Maryland, Mr. Moakley, Mr. Murtha, Mr. Pettis, Mr. Pickle, Mr. Preyer, Mr. Robinson of Virginia, Mr. Rosenthal, Mr. Sarbanes, Mr. Shriver, Mr. Stuckley, Mr. Taylor of North Carolina, Mr. Thompson of New Jersey, Mr. Veysey, Mr. Young of Illinois, Mrs. Schroeder, Mr. Dominick V. Daniels, and Mr. Lagomarsino

STUDENT FINANCIAL ASSISTANCE

(Student Loan Programs)

MONDAY, JUNE 3, 1974

House of Representatives,
Special Subcommittee on Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 2175, Rayburn House Office Building, Hon. James G. O'Hara (chairman) presiding.

Present: Representatives O'Hara, Dellenback, and Erlenborn.

Staff members present: Jim Harrison, director; William F. Gaul, associate general counsel; Elnora Teets, clerk; and Robert C. Andringa, minority staff director.

Mr. O'Hara. The subcommittee will come to order.

Today we conclude our hearings on the loan component of title IV.

Our first witnesses are familiar, I am sure, to members of the subcommittee. No two witnesses have appeared before us more often, nor have been so involved in helping this committee and the Congress cope with the legislative problems relating to the guaranteed loan program. Jay Evans runs the loan program in the State of Pennsylvania and has just assumed the office of president of the National Council of Higher Education Loan Programs, and he appears in that capacity. He is accompanied by the council's president-elect, Mr. William Nester of New Jersey; and by the council's legislative representative, Carol Wennerdahl, who also manages the State Guarantee Agency in the State of Illinois.

I would like to welcome our witnesses. I know your contribution will be invaluable.

STATEMENT OF JAY EVANS, PRESIDENT, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, ACCOMPANIED BY WILLIAM NESTER, PRESIDENT-ELECT, NCHELP, AND CAROL WENNERDAHL, LEGISLATIVE REPRESENTATIVE, NCHELP

Mr. Evans. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, it is indeed an honor for me as president of the National Council of Higher Education Loan Programs to appear before you today to present our views and positions with regard to the future of the guaranteed student loan program. In September of 1973, the national council prepared a rather comprehensive paper discussing what we believed to be the major issue confronting the student loan program. The paper attempted to address all the various options open to policymaking bodies, and copies of the issue paper were made available to members and staff of this committee.

Over the last few months, the national council has adopted some specific recommendations for legislative change, which we feel would improve the program. Those recommendations are attached to this statement as an addendum, and I will be glad to answer any questions you may have following my prepared statement.

The council, however, continues to feel that the most critical issues facing us are in the nature of policy statements and goals. It is impossible to effectively and efficiently administer a program whose goals and objectives remain unclear. It is for this reason that our statement today puts aside temporarily some of the technical problems involved in program administration and asks the committee to address itself to the following questions which must be anwered before a sound program can be rebuilt. These five questions are:

(1) Who should have access to student loans?
(2) Who should bear the program costs?
(3) Who should provide the capital for lending?
(4) Who should perform the lending function?
(5) Who should guarantee the loans?

However, before we speak to these questions, the council would first like to express its appreciation to the chairman and this committee for the efforts put forth to enact Public Law 93-269. As you know, today is the first day that this act takes effect, and for all intents and purposes eliminates the "needs test" on interest subsidy benefits in this program for just the family income students below $15,000, and also extends special allowance for 1 year.

The national council has repeatedly expressed philosophical and practical reservations about the changes made by the 1972 legislation in our program's interest subsidy eligibility provisions. Therefore, it was extremely gratifying for the council to observe earlier this year that both majority and minority members of the Education and Labor Committee introduced legislation to restore interest benefits even beyond the pre-1972 levels. We also wish to commend the chairman for beginning early the task of reviewing student aid legislation. We feel these hearings are most timely.

WHO SHOULD HAVE ACCESS TO STUDENT LOANS

Target population unclear

Previous witnesses have addressed the subject of the confusion which surrounds the purpose of this program. We need not trace again for this committee the blurring purposes of this program as it evolved from the 1965 program for middle-income students to the 1972 program which was viewed as a low-income program. Once again this program begs for definition of purpose.

Access problems affect program structure

There is no question that access to student loans is a critical problem right now, especially in some geographical areas. The law was recently changed, mainly in an attempt to restore student access to this program—an attempt which might now be seriously counteracted by a student loan interest rate and special allowance whose total rest more than 2 percent below the current prime lending rate.

The problem of access has caused many schools who have the resources to do so to enter the lending field themselves. In fact, a previous witness has suggested to this committee that indeed schools should borrow money directly from banks and take over the lending function in this program. Some have said that this would provide a more effective delivery system of loan dollars since commercial lenders have lately tended to discriminate against students attending schools such as Malcolm X College in favor of students attending schools such as Harvard. Of course, one would have to examine the implicit assumption that commercial lenders would not tend to discriminate against lending to schools such as Malcolm X in favor of lending to schools such as Harvard.

Can equal access be restored?

Also in need of examination is whether or not lenders' tendency toward discrimination would remain unchanged or would tend to diminish if they were adequately compensated for their lending expenses. In addressing the question of program purpose as it relates to who should have access to guaranteed loans, the national council feels that the structure and purpose of the 1965 act remains largely valid. This program was primarily designed to assist middle-income students, but without excluding low income students from eligibility. And while significant numbers of low-income students did borrow in the earlier days of the program, the relatively small numbers of such borrowers who sought access and who were denied by lenders were then able to turn to other campus-based programs designed particularly for them.

We still think that this combination is a winning formula. If lenders were adequately compensated for their expenses—and one must not forget that the interest rate set in 1965 was 1½ percent above the then current prime lending rate—the council feels that any discrimination which does exist would once again become minimal.

WHO SHOULD BEAR THE PROGRAM COSTS?

Monetary "shell game"

Mr. Chairman, two facts appear so evident that it almost seems unnecessary to state them. First, money as a commodity costs money. Second, administrative services cost money. Whenever the total of these costs exceeds the return a lender is receiving on his investment, he will find that investment most unattractive. In our program, even this body has no power to legislate away the costs; it may only redistribute the responsibilities for bearing those costs.

Options are endless

The lender may have his costs directly compensated by the consumer, the Government, or the school, or he may have some of his costs reduced by shifting some of the program's administrative burdens, with their accompanying costs, to another party such as the Government or the school. The only certainty is that the costs will not disappear regardless of with how much dexterity this monetary "shell game" is played. We urge this committee to first consider the question of who should pay these costs before addressing the question of how.

One example of "cost shifting"

An earlier witness before this committee advocated one option of shifting the program's cost burden from the lender. A proposal introduced to you last week would permit commercial lenders to receive the full interest rate on student loans they now receive, but with no responsibilities or cost for program administration. Those costs would be shifted to the school who functioned as the lender, and indirectly, to the student consumers.

Under such a proposal, if the commercial lender does perform some of the administrative functions associated with lending, he is compensated for it under separate contract by the school. If this committee were to embrace such a concept, it must be aware that these administrative costs have not been swept under a rug. They must be dealt with, and following are some of the questions which would have to be answered.

Some policy questions

First, are schools to be the "prime" lenders, or are they only to supplement the commercial lender's efforts? If they are only to be supplemental lenders, this committee must answer for itself how long the majority of the commercial lenders are going to continue making loans directly to students if they see a more lucrative market in loans to schools. How long would it be before the commercial lending community thus forced the schools from the role of supplemental lenders into the role of prime lenders?

And, if a program of loans to schools should so jeopardize the continuation of direct student lending by the balance of the commercial lenders, this committee must address the question of how the schools are going to pay the costs of program administration. Should the Government simply declare a policy of benign neglect and let students of those schools who cannot afford to pay the bill go begging for loan money while students of the largest and more wealthy schools enjoy a surplus? Should all the schools be instructed to raise their tuition accordingly? Should the Government pay a subsidy to the school for use in purchasing the required services? Should the Government directly subsidize several large service corporations owned by such lenders as First Chicago Corp., First Minneapolis, and Wachovia? Or, would it be most efficient to pay such a subsidy directly to a commercial lender who originally furnishes the capital and have him make the loan directly to the student? The question of who can most efficiently perform the administrative tasks required in this program should not—and must not—be confused with the question of who pays for those services.

WHO SHOULD PROVIDE THE CAPITAL FOR LENDING?

This is a question quite apart from that of who should loan the money to the student. Congress must address the issue of how much money for student loans is required and then decide whether to stimulate this money from the private lending community, to appropriate the money directly, or to let the burden slide onto someone else's shoulders, such as the States or the educational institutions.

The National Council continues to believe that equal access to loan funds would best be served at the lowest cost by the blueprint first designed by this body in 1965. We in the Council have been criticized in the past by some who feel that we are perhaps more concerned with our lenders' interests than the students' interests. We submit that the two are not easily separated, and, if they were, they would not be in conflict.

We have no other objective than to make loan funds easily available to students. And, if we believe that the private capital which is available to our program is not readily expendable, and if we see no substitute which would provide an equitable distribution of loan funds throughout the Nation, then we must seriously and objectively address ourselves to the lenders' problems with this program.

In 1965, we recruited lender support with promises of an adequate return on funds with an interest rate then 1½ percent above prime and an attractive, low cost, Government-subsidized loan which they could offer to their customers and residents of their community. The National Council asks the Congress to keep that early promise of adequate return and attractive loans. That is the only way the private capital market can once again be stimulated to provide the necessary funds for our students.

WHO SHOULD LEND THE MONEY?

Performance records

If this question is addressed separately from the issue of who should bear the administrative costs associated with the lending function, the sole matter for decision is to determine who can perform this function in the most efficient manner, and in such a way as to optimize future collections. As to the latter, a look at the past performance of educational lenders would be helpful. The data provided on page 16 of Dr. John Phillips' statement before this committee last week is instructive, even though the reader is warned that even a cursory review of the summarized data reveals numerous inconsistencies. Dr. Phillips' statement reveals the following original loan amounts and their current category within their matured status:

	Millions
Fully retired	$255
In deferment	30
On schedule in repayment	1,065
Past due	490
Total matured loans	1,840

If one can make an assumption—which must later be substantiated or corrected when all of the aforementioned data inconsistencies are checked and corrected—that the average indebtedness per student was approximately the same in each of the four categories listed above, such an assumption would lead the reader to conclude that 26 percent, or slightly more than one of every four borrowers no longer in school are delinquent on their loan payments.

If it appears that the Office of Education will need a great amount of time to reconcile the data with the thousands of individual school reports, perhaps this committee might seek the cooperation of the three largest servicers of student loan accounts made by educational lenders. Corporations owned by First Chicago Corp., Wachovia, and American National Bank of Chicago service literally hundreds of thousands of such accounts for educational lenders, and they provide their client-schools with the required data each year to complete the necessary Federal report forms. This committee might benefit from a request to these corporations asking if they might submit a copy of a June 1973, fiscal operations report on which they have summarized the data on all of the accounts they are servicing. Even though one might naturally assume that schools who use a professional servicing company would generally tend to have lower delinquency figures than those who perform the function themselves, the data still would still be very instructive.

Data on the performance of educational lenders in the guaranteed loan program is also interesting. At the end of the last fiscal year, it was found that about 10 percent of the borrowers in matured status were 30 days or more delinquent. This figure included data from both educational lenders and commercial lenders. When the educational lenders were isolated, the delinquency figure soared to 37 percent, and there was only approximately 1 percentage point difference between proprietary schools acting as lenders and colleges, and universities acting as lenders.

Some have attempted to explain that the college and university delinquency rate is so high because they act, in many cases, as lenders of last resort. Certainly this is a contributing factor, but it by no means can masquerade as the total explanation when delinquency rates for college and university students who borrow from commercial lenders is one-fifth or one-sixth that rate. In our experience, we have seen many other factors operating.

Contributing factors

The first factor relates to the question of lending expertise. We readily concede that there are some educational lenders who are superior to our poorer commercial lenders. But one must discuss the average educational lender and the average commercial lender. One cannot forget that the answer to the educational lender question must simultaneously embrace Nola's School of Beauty Culture as well as Yale University.

The second factor relates to the performance of "due diligence" in the loan origination process. Testimony by Office of Education witnesses before this committee last week suggested that a student's tendency to default bears a close relationship to the manner in which the loan originated. We concur.

For many years the proprietary schools have received criticism for using our program to recruit students with claims of "easy financing" and "no money down." Their critics have charged that the recruiters neglect discussions concerning the seriousness of the loan obligation in favor of glowing descriptions of the attributes of the schools they represent, lest they lose a prospective applicant because of stressing his indebtedness. All of this behavior was attributed to "the profit motive."

Proprietary schools have been lenders for some time in our program, but now growing numbers of colleges and universities claim that they have to become lenders in order to compete for students. The profit motive which plagued program administrators in the 1960's is about to give way to the survival motive of the 1970's as schools scramble to entice the dwindling pool of applicants to their campuses.

The key to school lending behavior will not be whether their charter is nonprofit or for profit, but simply how badly students are needed in order to survive. It would seem naive indeed to expect the board of trustees at Obscure College to choose bankruptcy before instructing their faculty and staff to employ aggressive recruitment techniques. For the sake of our program, and especially our students, we cannot afford to permit our lending functions to be carried out in this environment.

The third factor which contributes to delinquency rates for educational lenders also was discussed before this committee last week. It relates to the students' perception of value of education received and how it affects repayment attitudes in varying ways where educational lenders and commercial lenders are involved. Our members have often repeated the illustration describing the man whose newly purchased toaster didn't work. If the man charged the toaster on the store's deferred payment plan, he is far less likely to pay the store until he received satisfaction than he would be willing to pay, for instance, a neighbor if he'd borrowed the money from that source. Our collectors have observed the same phenomenon when a dissatisfied student perceives that he has charged his education on the school's deferred tuition plan. A dissatisfied student is far more likely to pay a third party he holds blameless for his complaints.

Effect on pricing and enrollment patterns

The issue of who should lend must also be studied from a standpoint of its possible effect on pricing and enrollment patterns. This committee must consider the impact that a very large pool of lendable capital might have on a school's tuition—especially if other schools in the area could not compete with similar offers of deferred tuition plans. Also, this committee heard testimony last week which indicated that the entrance of the wealthier schools into the lending field was redistributing enrollments in favor of those schools and at a large sacrifice to those schools of modest financial means who cannot afford to compete on the same terms. And while market forces will have their influence in the educational field, it would appear to some a questionable use of Government money to widen the competitive gap by affording a Government guarantee only to those schools who can raise the capital.

The enrollment distribution problem would be further aggravated by setting up strict due diligence standards for the licensing of educational lenders as some have suggested since only the wealthier schools could afford the service contracts or additional staff required to measure up. Also threatening to further aggravate the problem are the efforts by some to remove the prohibitions against schools selling at discount or offering lenders additional premiums or compensating balances. This would provide a world where the wealthier schools and their students would have a clear advantage in the competition for private capital.

Capabilities of educational lenders

It has been said that schools possess some unique capabilities not had by commercial lenders. Among these are the ability to more closely monitor the students status. However, these capabilities need not go unused if a school is denied lender status. Rather, if this committee feels them to be of value, they should be incorporated into the responsibilities of an educational institution without relating them to a lending function.

WHO SHOULD GUARANTEE THE LOANS?

To encourage State agencies

From the date the Higher Education Act of 1965 was enacted containing a statement of purpose to encourage and strengthen State guarantee agencies, the effect has been to discourage and weaken those of us who made the effort to build a good program for our students. Why? Because the very same clause in the act established a temporary, standby, guarantor of last resort—the federally insured loan program. Today, any State considering the question of State versus Federal guarantees is offered a puzzling choice. The State is "encouraged" to set up a State guarantee agency with the enticing offer of an 80-percent Federal reimbursement for all principal losses incurred on defaulted accounts. However, the State is asked to consider a second alternative in which the Federal Government would bear 100 percent of the principal losses, plus 100 percent of the accrued interest losses, plus all administrative costs.

A view from outside observers

With the choice appearing so obvious to most who would study the alternatives, why do the States continue their sometimes perilous struggles to continue operating? One answer to this question was presented to this committee last week in the testimony of the National Association of Student Financial Aid Administrators, whose membership works with all of the State and Federal guarantors. The national association recommended in their statement that the Congress should "remove the disincentives for the operation of State guarantee agencies." The testimony went on to say: "The evidence seems clear, in terms of processing time, lender relations, institutional relations, and other considerations, that this program can be operated more efficiently at the State level than at the national level, at least under present circumstances."

Data

What is important about this State agency performance is that it translates into available dollars for students. The Office of Education prepares monthly volume reports on both guarantee agencies and the FISL programs, and the last report received gives data through January 1974.

It is very revealing to compare fiscal year to date figures for the same 7 months in fiscal year 1972 preceding the legislative change. The reports show the guarantee agency 7-month loan totals to be 421,284 loans in fiscal year 1972, and 366,194 loans in fiscal year 1974, or a decline of 13 percent. The FISL program figures are 459,225 loans in fiscal year 1972, and 352,164 in fiscal year 1974, or a decline or 23 percent. However, that 23 percent is misleading. If one were to remove only the figures for the 3-month home study school lenders from the FISL volume, the decline of the remaining lender participation would be 35 percent.

Although the limitations of the Office of Education's computer system prevents the obtaining of exact figures, there has been much speculation that if the figures representing the volume of two or three dozen educational lenders in the FISL program were eliminated, the result would show commercial lender support of the program to have declined at least 50 percent and maybe more. The volume in the current home State of our next Commissioner of Education, Utah, has declined 72 percent.

Confidence crisis

This program is suffering a great crisis in confidence in the commercial lending community. The confidence must be restored if students are to have continued access to loans. We believe that only the State agencies have close enough proximity to lenders and sufficient resources to attempt such a task. Also, the State agencies have the advantage of being, for the most part, held blameless for the problems of the last couple of years, which lenders generally feel to be the fault of the Federal Government.

Furthermore, it must not be forgotten that States have appropriated approximately $375 million in grant aid for their students this year. If State and Federal dollars are ever to be efficiently coordinated, and if we are ever going to relieve the student of multiple application forms and processes which are now required by State and Federal aid programs, logic would dictate that the responsibility for processing the paperwork should rest with the States.

Legislation needed

Mr. Chairman, the national council feels that its member States are providing worthwhile and necessary assistance to their students. However, we do feel that it is not in the best interest of all States or of any one State for the present double standard of Federal investment in this program to continue. State programs have fallen in the past and more will fall in the future as we petition our State leaders for money to pay for default losses and administrative costs which a neighboring State is getting for free. We ask you to consider our problems and to entertain legislative amendments which would equalize the Federal investment in guaranteed student loans within all 50 States at whatever level of investment this body would feel best serves public policy.

Mr. Chairman, thank you for this opportunity to present the council's views and concerns. We would be happy to answer questions concerning this statement or any of the recommendations attached to it.

[Addendum to Mr. Evan's statement follows:]

Summary of Positions by NCHELP, on Changes to Title IV, Part B of the Higher Education Act of 1965, as Amended (Student Loan Guaranty Legislation)

In its quest to have the federal laws revised toward the more feasible operation of student loan programs throughout the United States, the NCHELP has taken the following positions:

1. One of the original purposes of the Higher Education Act of 1965 was to encourage the establishment of state or private, non-profit guaranty agencies. In 1965, Congress appropriated federal "seed" money to encourage states to create their own agencies for administering the student loan insurance program. In 1968, Congress made a further attempt to fulfill this original purpose by substituting "reinsurance" for seed money. Reinsurance reimburses the state agencies for a portion of their losses on defaulted accounted and serves as a means for state agencies to cut their losses under the loan insurance program. Reinsurance, then, is an incentive for states to establish their own loan insurance agencies as intended in the original Act. However, the incentive reinsurance provides is counteracted by the Federally Insured Student Loan Program. This federally insured program provides student borrowers with the same benefits as a state program and at no cost to the states. If today it remains the intention of Congress

to provide incentive for states to create their own loan insurance agencies, current federal law should be amended expeditiously to fulfill Congressional intent. There would be two alternatives to choose from in order to accomplish such a goal—terminate the Federally Insured Student Loan Program or amend the legislation to achieve greater equity of federal investment in all states, regardless of who acts as insurer/guarantor.

2. To further discourage the use of the federally insured program, federal investment variables under reinsurance should be the same for all 50 states. This would provide a firm foundation on which a state may choose to build and would further insure that a state will not realize any financial gain by "going federal." For instance, "federal" states current benefit by having 100% of all defaulted principal and interest liability insured by the federal program while state agencies' default principal liability (the federal government has no liability for interest under reinsurance) is reinsured at 80% by the federal government. The federal statute was changed in 1972 to insure interest in the federal program, but such an amendment was not included to reinsure interest in the non-federal states. Such insurance of interest is necessary in order to make the loan paper readily marketable under SALLIE MAE. State-administered programs in states that do not insure interest are further jeopardized since they must assure more default liability or implement the federal program to escape the additional expenses. In states that currently insure interest, the amount of default claims would be substantially increased if Congress should adopt future legislation that would require the deferral of interest on non-subsidized loans during the borrower's in-school period. Congress is urged to immediately amend the current federal law to provide that the ratio of federal liability for payment of both principal and interest on defaulted student loans be equal in all states regardless of whether such loans are insured by the federal government or by a state or private guarantor. NCHELP recommends that this ratio of federal liability be established at no less than 80% of both principal and accrued interest on defaulted student loans.

3. In addition to 80% on defaulted loans as stated above, we urge legislative changes to provide federal liability to pay both principal and accrued interest on claims for death, disability, or bankruptcy of a borrower at the rate of 100%.

4. Another troublesome area for state agencies under reinsurance is the federal liability for collection costs in the pursuit of defaulted claims. The current reinsurance ratio of federal/guaranty agency liability for payment of defaulted principal amounts (80%/20%) does not extend in an equal ratio toward the expenses incurred by the state agency in its attempt to collect a defaulted loan. The state agency currently assumes 100% of the collection expenses which often exceeds the 20% of collected payments which the agency is permitted to retain. When you consider that the alternative federal program assumes 100% of these collection expenses, one could form the opinion that the federal government is not assuming 80% of a state's liability thru reinsurance but that the state is assuming 20% of the federal government's liability and paying a heavy administrative price to do so. Such collection expenses are not likely to ever be borne by the federal government under existing regulations. Therefore, NCHELP strongly recommends that Congress amend existing legislation to equalize the federal government and state agency responsibility for payment of collection costs for defaulted loans with the federal government paying 80% of such costs. We further recommend that such a provision be made retroactive to the original date of the federal reinsurance law.

5. NCHELP wishes to express a willingness for guaranty agencies to carry an equitable share of the financial burden of the student loan program. It is the proper responsibility of guaranty agencies to provide for administration of the student loan program; to bear full responsibility for payment of all day-to-day administrative costs; to pay up to 20% of losses of principal and interest incurred on defaulted student loans, excepting claims for the borrower's death, disability, or bankruptcy; to aggressively seek to effect collection of all defaulted loans and to pay a portion (up to 20%) of costs incurred in collecting or attempting to collect defaulted loans whehter or not recovery is obtained on such loans. NCHELP further seeks to retain the federal law which permits guaranty agencies to charge and collect a one-half percent per annum insurance premium charge on student loans and to use such income to partially defray administrative costs, losses, and that portion of the agencies collection expenses referred to above. This provision of the law should not be changed in any way that would affect the use of the insurance premiums by the guaranty agencies. Any such proposed changes should be aggressively opposed.

6. Each year the student loan program experiences a marked decline in the participation of third-party lenders (any lender other than the school) which is more noticeable in certain areas of the nation than in others. The basic factor here is that lenders find the student loan program economically unattractive when compared to larger and faster returns on other types of commercial loans. In addition, lenders are being "turned off" because of ever-changing regulations and accompanying administrative problems. The ever-present "bad" attitude of borrowers toward repayment of "guaranteed" loans and resulting strain on customer relationships affect the lender's willingness to participate. Conversely, the Council has very serious concern about the wisdom, long-term effect on the number of defaulted loans, and the apparent conflicts of interest which appear to result from permitting educational institutions to act as lenders in the student loan program for the purpose of making such loans to their own students. Due diligence begins with the first contact with the borrower. It is unrealistic to assume that a person responsible for recruiting students could at the same time impress on the borrower the seriousness of the loan obligation he is undertaking, especially when stressing this point could result in the loss of the "sale." The responsibility for credit and sales should not be placed in the same hands. The Council urges Congress to study these matters in depth and to seek and implement ways to make participation in the student loan program more attractive to third-party lenders. Further, NCHELP asks that Congress give very serious consideration to restricting or eliminating the eligibility of schools to participate as lenders in this loan program.

7. To further enhance participation of third-party lenders in the program, the Council encourages the continuation of the Emergency Insured Student Loan Act of 1969, as amended, providing for payment of special allowance to lenders. NCHELP further urges Congress to seek the advice of lenders to determine if the maximum special allowance rate currently specified in federal law should be increased and/or other appropriate actions taken by Congress to encourage third-party lender participation.

8. There are a few restrictions placed on lenders in the writing of promissory installment notes which, if eliminated, could assist in the reduction of defaults. The "nine-month" rule prohibits a lender from having a borrower execute a repayment note whose due date of the first payment is earlier than nine months from the date the student left school. Experienced collectors indicate that the first payment is the critical one in the collection process. Anything which inhibits the collection of that payment could cause the entire account to default. Even though a borrower is permitted to "pre-pay" on the account at any time during the nine-month grace period, such payments are not encouraged by lenders because of resulting bookkeeping problems. Discouraging the payment of any money is a bad credit principal. Customer relations can become strained when a student wants the repayment note and schedule right away in order to begin repayment prior to the end of the nine-month grace period. Students are often times angered at the incredulous fact that the lender, by law, may not comply with the borrower's request to begin repayment at that time. In addition, the majority of students graduate or otherwise terminate their education in May or June. The inflexible nine-month grace period causes the bulk of the lender's yearly collection work to come due in a one- or two-month period. This overloads the lender and greatly cuts down his efficiency than would be possible had the work been more evenly distributed throughout the year. Therefore, Congress should amend current legislation to allow the borrower and lender to mutually agree, at a time subsequent to the borrower's termination of his education, that the student will begin repayment of his loan obligation on a date not later than nine months nor more than 12 months following his date of termination of his education. NCHELP also recommends that such authority be made applicable to all outstanding guaranteed student loans heretofore made under the student loan program.

9. Another restriction placed on lenders when writing promissory installment notes is the "five-year rule." This rule prohibits the lender from having a borrower execute a repayment note whose schedule of payments is less than 60 months (unless the debt is under $1,800). Again, this causes bad borrower/lender relations when the borrower wants to repay the loans more rapidly and wants the note and payment schedule to reflect the actual payments. "Pre-paying" by borrowers in such cases causes bookkeeping problems for lenders. In cases where the borrower is making larger monthly payments than required, the borrower could lose contact with the lender after a few payments but the account would not be picked up as delinquent because the record says the borrower is paid ahead. Loss of regular contact between borrower and lender is an undesirable

credit situation at any point during repayment. The borrower who is able to and wants to repay sooner but settles for the five-year schedule ends up paying more in interest than he would on a shorter repayment schedule. For the above reasons, the Council urges Congress to make legislative changes to permit the borrower and lender to mutually agree to a repayment schedule of less than five years. For the borrower's protection, it should be indicated that this agreement must be in writing and must occur after the borrower finishes school, and not at the time he makes application for a loan. Further, a lender should be prohibited from filing a default claim on such a note until he demonstrates that he has sent in writing to the borrower an offer to refinance the note to an alternative repayment schedule having payments not greater than would have been the payments had the original "total of payments" been financed over 60 months. Further, a default claim cannot be filed on such a loan until the borrower has rejected in writing such an offer or has not responded to the offer for a period of 30 days.

10. Bankruptcy is increasingly being used by student borrowers as an alternative to repayment of the loan obligation. Credit restrictions on recent bankrupts are not insurmountable since some creditors will show preferential treatment to recent bankrupts because of the knowledge that the prospective borrower can't file for bankruptcy again for several years. Many guarantors believe that most student loan bankruptcies are truly unnecessary, and some appear to be a premeditated "easy out" for the borrower to relieve himself of this financial obligation. Since more than 90% of all student loan bankruptcies occur within five years after the borrower leaves school, a five-year "moratorium" on student loan dischargeability would be most helpful. The "premeditated" bankrupt would be reluctant to file after the five-year period because a certain amount of assets would have been accumulated by that time. Congress should amend the national bankruptcy laws in such a manner as to provide for the non-dischargeability of guaranteed student loans in bankruptcy during the in-school period and during an additional minimum period of five years following the beginning of the repayment period. Proposed legislation adds a hardship clause which should be deleted.

11. Locating missing borrowers is virtually one of the most expensive collection functions of the guaranty agencies. Collection can usually be effected from borrowers sooner or later once they are located. The critical and time-consuming problem is merely finding them. The Council is not insensitive to the individual's right to privacy and confidentiality of data. However, the avenues of pursuit which guaranty agencies must now follow (contact with friends, neighbors, relatives, and business associates) might be labelled as a far greater violation of the borrower's right to privacy than the mere revelation of a current address. The Social Security Administration (S.S.A.) has current data on its records. It is a logical source since it is a branch of HEW, the department responsible for the student loan program. It seems grossly inefficient for the Commissioner of Education to spend huge sams of money to locate borrowers who owe HEW money if the Commissioner of Social Security knows where they can be located. Another alternative to S.S.A. providing current information on hte missing borrowers could be for the S.S.A. to undertake the mailing of delinquency notices to the last known address of the borrower. This would insure that the S.S.A. would not divulge "confidential" information but would prove to be a less effective alternative because it precludes any telephone follow up to the letter which is often necessary. However, some missing borrowers would be motivated to contact the guarantors and, therefore, would be of some help. The Council recommends that Congress be informed that an S.S.A. locator service be established for furnishing locator information on missing borrowers upon request by guaranty agencies and that this service would substantially assist the agencies in the collection of and prevention of defaulted student loans.

12. One of the major problems lenders encounter in the administration of the student loan program is the complex accounting required to enable them to bill the Office of Education for special allowance. Congress should amend current legislation to extend eligibility for special allowance to the then current balances of all loans made under Title IV, Part B, of the Higher Education Act of 1965, as amended. This would help eliminate the troublesome loan categories which inhibit loan consolidation in the repayment period and it would not add significantly to the appropriation required because the current balances of loans disbursed prior to August, 1969, represent a small percentage of total loans outstanding.

13. Another accounting problem exists when interest subsidy is paid during the student's repayment period. Congress should amend legislation to permit lenders, at their option to bill the federal government on a lumpsum basis (and

perhaps at a discount) for the 3 percent interest subsidy during the repayment period on eligible loans disbursed prior to December 15, 1968. These billings would be submitted at the time a loan enters repayment (or at any time during the repayment period) and would not be subject to refund or supplemental billing if the repayment period is subsequently extended or if the loan is prepaid. This amendment along with the special allowance amendment would permit lenders to consolidate all loans outstanding during the repayment period which would eliminate the need to break out individual balances where the lender bills the government.

CONCLUSION

The National Council seriously believes that the implementation of the recommendations outlined in this Addendum will strenthen the student loan program and greatly increase lender participation in it.

Mr. O'HARA. Thank you very much, Mr. Evans.

There have been, of course, a number of suggestions made with respect to changes in the program, and I would like to get your comments on some of them.

One suggestion has been that we get rid of the interest subsidy; another that we require interest payments to be paid while the borrower is in school, have them begin practically immediately, since the borrower gets the immediate impression then that he has something here that is really a loan that has to be paid back, and also to prevent the lender discovering a deadbeat after he has given him the first loan, instead of after giving him the third or fourth loan.

I would like to hear your comments on those suggestions.

Mr. EVANS. It is our position that interest subsidy continue. Our basic reason for this is that it is a program where the middle-income family in the past, in the early years, had benefited. This has been restored to some extent with the recent legislative changes. We feel that if this interest subsidy is removed, and if commercial lenders would stay in the program, this will not continue.

Lenders cannot, with current market conditions, put up with the quarterly billing or monthly billing to students, I think was suggested, in some cases, on these loans. They can't put up with the administrative work.

Another large problem involved is when the student does not make that quarterly or monthly payment and he is then neglected in any future loans, which would prohibit him from continuing his education. Some of the other members may wish to answer.

Mrs. WENNERDAHL. Mr. Chairman, I understand and wholly sympathize with the goal which would be served by having payments begin early in the life of the loan, thus helping keep the student aware of the nature of the loan and the lender in touch with the student.

I don't think any program administrator here underestimates the value of some type of program whereby the student status is monitored at given intervals. However, I would suggest this could be handled differently administratively by the program operators. Monetarily, the problem you run into in the student paying interest is that the student who borrows a $2,500 loan in 2 consecutive years has a monthly payment of up to $30 a month already while in school, and this indeed is going to lead to a considerable amount of hardship. If a student had $30 a month, in many cases he wouldn't be borrowing in the first place.

Also, as Jay mentioned, the administrative cost to the lender has to be considered. Our testimony stated that money costs money and administrative service costs money, and that proposal would increase the administrative work and therefore the administrative cost. Therefore we would have to increase the return that the lender will have to get on that money to compensate for that extra work, unless it was very heavily subsidized, the interest rate to the student would have to be even raised above 7 percent to cover this cost.

I think it is a case of the administrative cost chasing the interest rate up, and the interest rate chasing the student's cost up. That is an escalation process we don't need to get into. We can keep track of the student in another way.

Mr. Nester. Mr. Chairman, I would like to relate, if I may, the experience of New Jersey which had a loan program prior to the Higher Education Act of 1965. In fact, it is very similar to the one now in existence, except that prior to 1965, the students of New Jersey had to pay their own interest on student loans.

About the time the Federal act was passed, the lenders were having such difficulty in getting students to keep abreast of payments and the records were in such a mess that the lenders were dropping out of this program like flies. It was supposed to be good public relations for them, and they were having difficulty with the sons and daughters of some of their best customers. Constantly cases were being brought to them by examiners because there were failures to pay interest on the notes.

To cite specifically what happened, while lenders were dropping out in 1965 between the advent of the first loan in New Jersey in 1960 and the implementation of the Higher Education Act of 1965, let's say approximately June of 1966, about $14 million worth of loans were made to all students under the program. Then along came the interest-subsidy provision, and in that first year alone, 1966–67, $16 million worth of loans were made in the State of New Jersey primarily because the interest was subsidized on student loans. From that point forward things really took off, and lenders opened their doors, and we were able to recoup the losses of those who dropped out, and they came back into the program, and in fact sold their neighbors on it.

Mr. O'Hara. It has been suggested to the subcommittee that high default rates are associated with a certain institution, or students of a certain institution, and it has been suggested to us that we might try to keep track of defaults institution by institution, or delinquencies of whatever nature, and when it reaches a certain point, let's say that that is an ineligible institution then, and federally insured loans would be no longer made to students for the purpose of paying educational expenses at those particular institutions. Would you have any comments on that?

Mr. Evans. Personally I would not like to see it related only to that. I think the placing of a school on the eligibility list should require measures that they must live up to. In Pennsylvania, we are currently having problems with proprietary schools, a few of them, who are spoiling it for the rest; where they are carrying applications with them and recruiting students and going to the lenders' windows and picking up the check to the student which is fully payable and taking the fee directly over the counter.

We have suspended schools, and we have sent out people to review these schools. Let me stress that we feel that State agencies can do this particular type of work quite well, because they are more closely associated with these types of schools. But I personally feel that just removing a school and jeopardizing the other students at the school would hinder the students and the program.

There might be, as I said, other criteria established before this school is placed on the eligibility list.

Mrs. **Wennerdahl.** Mr. Chairman, I also have problems with penalizing new students and denying them eligibility because some of their classmates did not repay the loans. When we have studied the default problem in our schools, certain things that occur that, first, would cause you to believe that it is a type of school where the default rate runs higher. Closer investigation would tend to show you that it is a behavior pattern of a school and their practices where the default rate runs high.

I would like to submit that a lot of the problems go back to the case, as a previous witness of last week said, where the school is involved in the lending process, whether it is the lender or merely involved in the lending process. The experience in my State has not been with schools acting as lenders per se, but we have had a considerable amount of experience with schools that have originated the paper on behalf of the lending institution and, as far as the student's perception is concerned, it is a school-arranged loan. In cases such as that, within that type of school, the default rate is high. Where schools are not involved in the lending process and the student has a relationship with a commercial lending institution and a complete separation of the credit process and the educational process, we do not run into confusion in his understanding of that loan.

Mr. **O'Hara.** Mr. Dellenback, any questions?

Mr. **Dellenback.** Thank you, Mr. Chairman.

I think you have raised a very provocative question, and I find it very helpful.

I would like, if I may, to be sure I understand in summary form what you are saying. I would like to look at the questions you raise and have them in simple form. You say in the first question: access is the critical problem right now. We certainly agree with you on that.

Do you have a simple statement you could make as to who should have access?

Mr. **Evans.** Well, it is our feeling that the original intent of the legislation was that the middle-income family should have access to this program, not eliminating the low-income students.

Mr. **Dellenback.** Simply, you are saying the thrust of this program should be to make funds available to the middle-income families?

Mr. **Evans.** I think this is definitely one of our major points.

Mr. **Dellenback.** When you talk about the restoration of that kind of access, do you feel that one of the principal things we need to do is to compensate lenders adequately for their expense?

Mr. **Evans.** Definitely.

Mr. **Dellenback.** So those two principal points come out of the thrust of who should have access?

Mr. **Evans.** Right.

Mr. Dellenback. When we get to the question of who should bear program costs, I am not quite sure I understand your answer. If we look beyond the question of cost shifting—which I think is sound—and look at the policy questions and the fact that you can confuse the question of who can most effectively perform task, and who should pay for those services, what is your recommendation to us as to who should bear program costs?

Mr. Evans. We feel that the commercial lending community should make the loans.

Mr. Dellenback. I am not talking about who should do the lending. That is the fourth question. I am talking about who should bear the costs, your second question.

Mr. Evans. Actually, what we are saying is that it should be the Federal Government who should bear the costs for the interest on eligible loans.

Mr. Dellenback. Your answer to the question of who should bear the administrative program costs is that, in one way or another, these costs should be borne by the Federal Government?

Mr. Evans. Yes.

Mr. Dellenback. However we structure it and however we set up who does the lending itself, the answer to the second question is the program costs should be borne by the Federal Government?

Mr. Evans. Yes.

Mr. Dellenback. OK. Focusing on your third question of who should provide the capital, again, I want to be sure I get the essential thrust of what you recommend to us. Your answer is that the capital basically should come from the private lending community?

Mr. Evans. Yes, sir, that is correct.

Mr. Dellenback. However we mechanize it and however we work it out, your point is the thrust of this program should pull capital essentially from the private lending community?

Mr. Evans. We feel that with their expertise and with their having previous lending experience with other lending functions, a third party lender is definitely where this activity should originate.

Mr. Dellenback. Looking at the fourth question, who should lend the money, I gather essentially that the thrust of what you are saying is that the lending function could best be performed by the commercial lending community, not by the educational institutions; is that correct?

Mr. Evans. That is exactly right; yes, sir. In other words, we feel that the third party lender can do the best job of lending.

Mr. Dellenback. Would you completely eliminate the educational institutions in this regard? Are you suggesting that we go back to a situation where the institutions do not make the lending?

Mr. Evans. I don't think we made that statement anywhere.

Mr. Dellenback. I understand.

Mr. Evans. But there are definitely those schools which must. As an example, in Pennsylvania, we have a constitution which prohibits any State moneys to be used for schools of religion and theology. We have schools that have direct lending facilities for these types of programs.

So what I am saying is, we don't think, or I am sure the council, speaking for the council, feels that schools wouldn't be eliminated entirely, but we are concerned that they not be the prime source of lending in a program.

Mr. DELLENBACK. So you see the program being structured that the prime source would be commercial lending institutions?

Mr. EVANS. Definitely.

Mr. DELLENBACK. With some backup perhaps by educational institutions directly or through supplementary lending; is that correct?

Mr. EVANS. Supplementary lending, yes.

Mr. DELLENBACK. Is there anything simple you could give us based on your experience as to which institutions are good lenders and which are not? Is there a simple measure of this? If we were going to write anything in the statute that would permit institutions to continue, would there be anything you would suggest that we ought to write in this requirement?

For example, you speak of the due diligence problem and the spinoff problems that follow.

Mr. EVANS. I don't. Carol, do you have anything?

Mrs. WENNERDAHL. In our experience, due diligence is maybe 60 percent attitude and 40 percent quantitative definition. Regardless of what you were to specify in the law as a due diligence criteria, first of all, your best lenders insofar as being able to meet the specified requirements of the law, in almost every case are going to be your large proprietary schools. Whatever you specify, they have the money to go out and buy, whether it be computers, whether it is staff, printing, or whether it be time or what have you. So if you are talking about just ability to adhere to a checklist that you would want to put into the law, it is going to be a school that is going to be able to go out and purchase the service. If you are talking about an attitude, which involves sitting down and counseling with a student, to stress his indebtedness, stress his responsibilities, it is going to be the schools that don't need the student so badly, the ones that can afford to win some and lose some. I don't know how you would put that in the law.

Due diligence cannot be legislated or regulated effectively. It must be motivated. In our commercial lenders, we are able to motivate them because they know they have to deal with the student during the repayment period, and an extra dollar spent during the loan origination process can save them more dollars in the collection process.

When you have a counter motivation operating, as you do in the case of a school needing tuition receipts more than they need a collection 5 years from now, I don't know how you can legislate against motivation. I don't know if it is possible.

I would agree with Jay's earlier statement, that there are probably some circumstances where schools need to be lenders. Maybe it is in the case of—let me use an example—home study schools. If they are to be kept alive in the program, they are probably the least attractive loan to a commercial lender. Perhaps this body would want a special provision for them. But whatever loopholes you allow, they are going to be marched through in great numbers and I think, statistics, not guesswork or not supposition, but statistics bear out that the program is going to experience greater loss to whatever extent educational lending is permitted.

Mr. DELLENBACK. I want to be sure I understand what it is you are stating. You would agree with what Mr. Evans has said as to who should lend—that primarily it should be commercial lending institutions?

Mrs. WENNERDAHL. Without exception.

Mr. DELLENBACK. However you would not want us to write legislation that would preclude or prohibit educational institutions from participating. You feel there should be some involvement on the institution's part on a direct basis, but what I am looking for is what you would suggest in the way of measuring how we should write the law as to which institutions should be permitted or encouraged to participate.

Mrs. WENNERDAHL. Frankly, Mr. Dellenback, I have wrestled with this particular problem now for about 15 months. Looking at the statute, trying to look at the problems as you identify them, I don't know that there is a way that legislation can be written to effectively solve the problems.

To repeat what I said, if you make a due diligence checklist, due diligence can be turned aside with a wink.

Mr. DELLENBACK. I don't want to get off into the specific criteria because I am not arguing due diligence. I am just asking you whether there are some specific things you can suggest we could write.

Mrs. WENNERDAHL. No, I do not think, Mr. Dellenback, there is any way you could effectively write the law to permit some schools to lend and not other schools.

Mr. DELLENBACK. In those circumstances I move inexorably to the question of whether we should have any schools directly involved and we come out with an answer that you say "no"?

Mrs. WENNERDAHL. That is correct.

Mr. DELLENBACK. Since you see real difficulty in writing criteria that would discriminate the good from the bad are you really then circling back on my first question? Are you saying participation in the program should be confined only to commercial lending institutions and, since you can't write proper criteria discriminating which schools should be able to participate on a sound basis, therefore no schools should be able to participate? Is that what you are suggesting to us?

Mrs. WENNERDAHL. Mr. Dellenback, if it becomes a black or white situation, and if indeed the legislative exceptions could not be as simple as those particular schools that are not permitted to share in State funds or some similar criteria, in an either/or situation, I would exclude schools from eligibility as lenders.

Mr. DELLENBACK. Would you agree, Mr. Evans?

Mr. EVANS. Yes, I would agree with that; but let me add that if the purpose of the program and if what is done for the lenders is sufficient for compensating him, I think enough resources will be available that we will not need a wholesale onslaught of schools.

Mr. DELLENBACK. Yes. Then the last question about who should guarantee, do I gather that the thrust of your suggestion is that we should not have the duplication where we have both the State guarantee program and FISL?

Thus, we have a choice of which program we should have, but we should not have both. You would suggest that we have just the State guarantee program and eliminate the FISL program?

Do I read correctly the underlying thrust of your testimony?

Mr. EVANS. What we are saying, Mr. Dellenback, is that we feel the double standard should be eliminated. In other words, in the State of Pennsylvania, right now, we are asking for, for the upcoming fiscal year, $2.8 million as backup reserve, and close to $1 million for administration. In addition to that, we must pay 20 percent of each loss. We are saying remove that disincentive for us to "go Federal."

We have nine regional directors in the field that work with lending institutions, that go into their shops, that work with the schools, work with students. But then you take your FISL States that do not have these things, they don't have the expense, expenses, that we incurred, but their expenses which are incurred are 100 percent out of the Federal Government's pocket.

Mr. DELLENBACK. Yes. I am not arguing, you see. I think there is a possibility of misinterpreting my question. I think your testimony raises some excellent questions. You have then, under each of those questions, given us a great deal of grist for the mill. What I am trying to find out is your answer to each of the questions, and that I didn't find anywhere in the testimony. Thus I am not arguing, but I merely want to be sure as to what you have given us in the way of information, and what it is you would suggest as an answer to the questions.

You have given me answers to the first four, and I would like you to clarify your answer to the fifth one: Are you suggesting to us that we eliminate FISL, in effect, and go the State guarantee route? In other words, we shouldn't have double standards and the better of the two is the State guarantee program?

Mr. EVANS. I don't think we are saying eliminate FISL, but we are saying eliminate the double standard. If we have a 90-percent or 80-percent reinsurance factor in Pennsylvania, why can't the State of California also pick up that 20 or 10, whichever you might elect it to be? In other words, what you would do then in the State of California, if you want to pick the program up, you would pick up 10 or 20 percent of the cost.

Mr. DELLENBACK. You are saying we should eliminate any situation whereby, under any program we have 100 percent of principal losses guaranteed unless it is under all programs, or administrative costs 100 percent covered unless it is under all programs. If we do it with everybody having 100 percent we, in effect, say everybody will be likely to not appropriate State money because there is no need to do so, so therefore it is better to go the route which induces this kind of initiative because it is right; is that correct?

Mr. NESTER. No; I want to comment a bit on this. About 1967 the State of New Jersey had committed all of its reserve moneys. It was unable to get any additional funds from the legislature for reserve guarantee purposes. We had at that time some 4,000 applications the lenders had committed themselves to and were willing to make the loans available.

Since we could not get money, we turned to the law which said that the Federal Government could come in then and insure the loans directly. The Federal Government did so. So we have had experience under both Federal and State programs.

Serious thought was given to continuing under the Federal program at that time for some of the reasons which were commented on and so on. We found that even though, or when the shift was made, even though we worked closely with our lenders and pleaded with them to honor commitments, only 60 percent of all of our lenders agreed to follow through and make loans under the Federal program.

By the end of this 10-month period, we were told by a large majority of our lenders:

> If we don't go back to the state program, we are closing our books on student loans. We will not continue unless we have a state guarantee program.

So, in terms of our own experience, I think you have an answer to the question of how we feel.

Mr. DELLENBACK. Let me then follow that a little further because, while I understand what you say, I am not sure it leads to the same suggestion as was made on Mr. Evans' behalf, namely to eliminate the extension. Your State, because it felt the advantages were not worth the disadvantages went the State guarantee road while other States came to the other conclusion and have gone the other route. You are now recommending not because your State is going the road it does not think it wants to go but for other reasons—that we should eliminate the procedure that another State wants to follow?

Mr. NESTER. No, but you just made a point I think prior to my comment that if all came to pass so it was equal under either program, that the States then would automatically go the Federal route, because of the money involved, they would not necessarily do so. I guess I reply to that and say it may not be true in all cases.

Mr. DELLENBACK. Your real suggestion, then, is not to eliminate FISL, but rather to let the States go both routes if they wish to do so?

Mr. NESTER. If they wish to.

Mr. DELLENBACK. But we eliminate the 80 percent against 100 percent of anything under such programs.

Mr. NESTER. That is right.

Mrs. WENNERDAHL. There are hawks and doves in our Council. There are some among us who would miss the FISL program less than others. I think your statement was well taken that the State of New Jersey now does not need the 20 percent insurance provided the other States in order for the New Jersey legislature to support them. However, it would be an extremely painful process for each one of us to have to go through, having upheaval in our States for a period of a year to convince our State legislatures that one program is superior over the other.

New Jersey is still feeling the effects of that year and it was some time ago. All we say is, if it be the policy of this body that we have a State investment in this program, then it make it easy for us to convince our State legislators to do so. Give program administrators in all 50 States the same task. If the Federal Government wishes to underwrite the total guarantee and expense in all 50 States, fine. I think on that basis we can still sell our State governments with the superiority of the local administration.

Mr. **Dellenback.** I have just one more comment. But you are not saying then that we should eliminate FISL.

If we were to take, in a reach for equality, the present disparity and resolve that in favor of an 80 percent bind for everybody—instead of 100 percent bind for everybody—I think it would in effect take a great many States and drive them out of the business. Either the whole program would die or else the States would have to step in. I am persuaded that where there is no State guarantee of that 20 percent, and if the Federal Government merely says, "We are going to guarantee 80 percent instead of 100 percent," the commercial lenders would abandon it in droves. I think that would follow inexorably, so if you say we should eliminate disparities in guarantees, what you are indirectly saying is must move 100 percent because we don't back away the other way or eliminate FISL.

Mrs. **Wennerdahl.** There are States operating with guarantee agencies right now with less than 100-percent guarantee and flourishing.

Mr. **Dellenback.** Are you suggesting to us it might be a good idea?

Mrs. **Wennerdahl.** No. I am just making a comment that it is not impossible for the lending community to exist with less than 100-percent guarantee.

Mr. **Dellenback.** If we did have somewhere along the line either a Federal loan or combination Federal-State 100-percent guarantee, would we find a material fall-off?

Mrs. **Wennerdahl.** That is possible.

Mr. **Dellenback.** Thank you very much, Mr. Chairman.

Mr. **O'Hara.** Well, thank you very much for your testimony. We appreciated hearing from you today and you have given us a good deal for us to think over.

Our second witness today is Mr. Gregory Lancaster, appearing for the Security Pacific National Bank of California. I don't have the precise comparative figures before me, but I am led to believe that Security Pacific is among the Nation's largest lenders of guaranteed student loans. Who ever holds the cup at the moment, I know Mr. Lancaster will be able to speak to us from extensive experience with the federally guaranteed student loan program.

STATEMENT OF GREGORY LANCASTER, ASSISTANT VICE-PRESIDENT, SECURITY PACIFIC NATIONAL BANK

Mr. **Lancaster.** My name is Gregory F. Lancaster. I am an assistant vice president of Security Pacific National Bank, the second largest national bank in the Western United States, which is headquartered in Los Angeles, Calif. Since January 1971, I have been deeply involved in the supervision of the bank's participation as a lender under part B of title IV of the Higher Education Act of 1965, Public Law 83–329, as amended, otherwise known as the guaranteed student loan program.

The bank's participation in the program has steadily grown over the past 7 years and at present it has more than 35,000 outstanding loans totaling approximately $30 million. I appear here today on behalf of the bank in order to comment specifically on the pending bill known as H.R. 13059 and generally on certain deficiencies regarding the guaranteed student loan program which have surfaced in recent years and require remedial legislation.

It should be added that the following views and proposals are generally shared by other participating lenders in California, including United California Bank, a State chartered bank headquartered in Los Angeles, Calif., which has outstanding loans to some 39,000 students totaling approximately $40 million.

With respect to section 2 of H.R. 13059, the bank must express its respectful opposition. Section 2 would amend that portion of the Emergency Student Loan Act of 1969 empowering the Secretary of the Department of Health, Education, and Welfare to prescribe a special allowance to be paid by the Commissioner of Education to holders of eligible loans in order to compensate them for vagaries of the money market.

The maximum special allowance presently permitted on outstanding loan volume is 3 percent and section 2 would increase the maximum to 4 percent. Given the current and prospective volatility of the money market, it is respectfully submitted that even a 4-percent special allowance might not be compensating.

In the bank's best judgment, the Secretary of the Department of Health, Education, and Welfare should have at least a 5-percent maximum limit in order to keep the program acceptable to lenders. The term "acceptable" in the preceding sentence is not intended to connote profitability because this program is founded on social missions rather than on monetary profits.

On the other hand, the reality that must be recognized is that the competitive nature of the banking industry does not allow lenders to engage in transactions where they must absorb the cost of money.

The bank also desires to express its opposition to section 5 of H.R. 13059. Section 5 provides for increases in loan limitations both as to principal amount and time for repayment. It will establish a new borrowing ceiling for graduate and professional students of $5,000 per year from the present $2,500 and increase the aggregate insured unpaid principal amount of all insured loans to any student to $25,000 from the present $10,000.

It will also extend the repayment schedule inasmuch as the student will have 15 rather than 10 years following the cessation of his formal education and the required grace period to complete the repayment of his borrowings and the maximum loan term will be 20 rather than 15 years.

Section 5 of the proposed legislation is indeed designed to increase the accessibility to guaranteed students loans. From the bank's perspective as a participating lender, however, section 5 may well permit a student borrower to contract indebtedness which will be extremely burdensome, if not financially impossible, to repay. This contention is illustrated by the following hypotheticals:

(A) Suppose that under the present law a student borrows $2,500 on September 1, 1974, and the same amount on each September 1 of the next 3 years with an anticipated graduation date of June 1978. He graduates on schedule and on May 1, 1979, following the expiration of the mandatory grace period, his first payment would be due.

Assuming the loan was not subsidized and the student has not paid the accruing interest (at the rate of 7 percent per annum as during repayment) as billed, the principal owed on May 1, 1979, would be $10,000 and the accrued interest would total $2,567.54. Using the amount of $12,567.54 and amortizing it over 10 years, the student borrower would have 120 monthly payments of $145.92 each or a total of payments of $17,510.40. Assuming the student had a subsidized loan or paid the accruing interest as billed, he would owe at the commencement of the repayment schedule the $10,000 in principal and his monthly payments would be $116.11 each for 120 months or a total of payments of $13,933.20.

(B) Suppose that under the proposed law a student borrows $2,500 on September 1, 1974, and the same amount on each September 1 of the next 3 years and, upon entering graduate school, borrows $5,000 on September 1, 1978, and the same amount on September 1 of the next 2 years with an anticipated graduate date of June 1981.

He graduates on schedule and on May 1, 1982, following the expiration of the mandatory grace period, the first payment would be due. Assuming the loan was not subsidized and the student had not paid the accruing interest as billed, the principal amount owed on May 1, 1982, would be $25,000 and the accrued interest would total $5,924.25. Using the amount of $30,924.25 and amortizing it as required, he would have 148 monthly payments of $312.54 or a total of payments of $46,255.92. Assuming the same student had a subsidized loan or paid the accruing interest as billed, he would owe at the commencement of the repayment schedule the $25,000 in principal and his monthly payments would be $252.66 each for 148 months or a total of payments of $37,393.68.

(C) Using the same facts as presented in (B) but adding the fact that our student has married another student who also had $25,000 in outstanding guaranteed student loans which have a concurrent maturity date, the combined family debt and required monthly payments would be double those amounts set forth in (B).

It has been the bank's observation over the years as a participating lender that student borrowers have generally had the financial ability to repay their indebtedness as it matures and is amortized. Although the student borrowing the maximum aggregate amount permissible under section 5 will have to be a graduate or professional student who will, following graduation, probably earn an income larger than that of the average member of his age group, it does not necessarily follow that he will have a disposable income of a size to accommodate the required payment on said loan.

A loan in the principal amount of $25,000 is similar in amount to a loan for the purchase of a home. Such a loan represents perhaps the largest investment ever made by a consumer and it demands a significant, but warranted, portion of his income for servicing.

As a prudent lender, the bank would not extend credit in such amounts to a loan applicant of our student borrower's age and income other than to finance the purchase of a home because the normal allocations of his budget would suggest his prospective inability to repay.

Section 5 may well increase the accessibility to guaranteed student loans, but it will also cast the die for great hardship when the time for repayment comes, if not inalterably program the student borrower's financial demise.

It is the bank's understanding that the default rate under the guaranteed student loan program was 5.2 percent for fiscal 1973 and has been projected at 7.2 percent for fiscal 1974. The bank is compelled to believe that passage of section 5 will ultimately cause this default rate to soar upwards. The bank therefore opposes section 5 because of its potential, but, admittedly, unintended results.

The following testimony is addressed to some of the deficiencies of the Higher Education Act of 1965, as amended, as perceived by the bank by virtue of its total experience as a participating lender. It should be emphasized these were latent deficiencies which have surfaced over the years and now require remedial legislation inasmuch as curative regulations could not be validly promulgated.

Section 430(a) of the act, as amended by section 132B(c) of the education amendments of 1972, Public Law 92-318, provides for the payment of the "amount of loss" sustained by the insured lender upon "default" by the student borrower.

The term "amount of loss" is therein defined as "an amount equal to the unpaid balance of the principal amount and interest." The term "default" is defined in section 430(e)(2) and includes "only such defaults as have existed for (A) 120 days in the case of a loan which is repayable in monthly installments * * *."In other words, if a student borrower fails to make a payment due on January 1, default for purposes of being entitled to insurance proceeds does not occur until 120 days have elapsed on April 30.

The amount of loss paid pursuant to the loan insurance is the unpaid balance of the principal amount and interest as of April 30. The problem with this arrangement is that it usually requires an additional 90 to 120 days after the date of "default" (April 30) to receive actual payment and there is no compensation for the interest lost during the interim.

The loss sustained by participating lenders is substantial in light of the annual rate of default discussed above which was 5.2 percent for fiscal 1973 and has been projected to be 7.2 percent for fiscal 1974. In order to compensate lenders for the 3 or 4 months of lost interest per defaulted loan, it is suggested that section 430(a), as amended, be further amended to require the Commissioner of Education to pay interest on the unpaid balance to the date of disbursement of the insurance proceeds to the lender.

Another problem concerns section 430(c) of the act which permits forbearances for the benefit of the student borrower which may be agreed upon by the parties and approved by the Commissioner of Education. Such forbearances are designed to accommodate exigent situations that may arise creating a temporary inability of the borrower to meet the terms of his repayment schedule.

When a forbearance is required, it demands immediate effect. The problem here is that prior approval of the Commissioner is required and this usually consumes a minimum of 45 days from the date of request by the lender. This is a cumbersome procedure that fails to fulfill the purpose of the forbearance provisions.

It is the Bank's proposal that section 430(c) be amended to permit the Commissioner to waive the prior approval requirement with respect to those lenders which have, in the Commissioner's judgment, consistently manifested prudent and effective collection practices.

Such a waiver could be predicated on the existence of certain enumerated factual situations thus retaining the prior approval required as to any other situations. In any event, section 430(c), as it stands, does not provide this latitude and its amendment appears necessary.

There is also a problem in connection with grace periods as required by section 428(b)(1)(D). This section provides that repayment shall not begin "earlier than 9 months nor later than 1 year after the student ceases to pursue a full-time course of study at an eligible institution * * *."

While the Bank certainly does not oppose the grace period concept or its usual application, there are occasions when its employment serves no useful purpose. One such occasion is when the student borrower who is at the time of repayment for existing loans under this program, returns to school and borrows again.

Under section 428(b)(1)(D), as quoted above, he is entitled to another grace period before commencing repayment of the new loan. In the Bank's experience, such a grace period is unnecessary because the student typically does not have the readjustment stresses that the grace period was designed to alleviate.

In any event, a forebearance under section 430(c) could re requested if such stresses were present. The Bank believes accordingly that section 428(b)(1)(D) should be amended to state clearly that there shall be one grace period per student as opposed to the construction possible under the existing law of one grace period per loan.

Finally, it is fundamental to the guaranteed student loan program that a student be enrolled or accepted for enrollment at an "eligible institution" as a prerequisite to eligibility for insured borrowing. Section 435(a) of the act as amended by the Education Amendments of 1966, Public Law 39–698, and the Higher Education Amendments of 1968, Public Law 90–575, defines "eligible institution" to include an "institution of higher education."

The latter term is defined in section 435(b) and this definition is the pith of the problem. The Commissioner of Education must classify an institution as an "institution of higher education" if the elements therein are satisfied.

One of the elements is that the institution "is accredited by a nationally recognized accrediting agency or association approved by the Commissioner for this purpose." The problem which has occurred at least once concerned an institution deemed eligible by the Commissioner in part because of its accreditation but which nevertheless had a curriculum for its student body which deteriorated to a point beyond substandard.

For some reason the institution retained its accredited status even after its doors had closed and therefore it retained its "eligible institution" status with the Commissioner. The Bank in this instance refused to lend to the students enrolled or accepted for enrollment in the institution but they were, of course, able to go to other participating lenders.

The net effect of this case was that the guaranteed student loan program may have been a conduit for fraud. The Bank believes this could have been avoided if the Commissioner had the statutory authority to exercise some degree of discretion in considering the continuing eligibility of "institutions of higher education" notwithstanding their accredited status.

The Bank believes that section 435 should be amended accordingly.

Mr. O'HARA. Thank you very much, Mr. Lancaster.

Mr. Lancaster, tell us a little more about the last problem which you mentioned, the institution that closed its doors.

Mr. LANCASTER. It went bankrupt and that is what closed it. It went bankrupt because it was a school lender. We lent directly to the students, but did not purchase any of its paper. In 1970–71, it came to our attention that the education they were offering to their students was completely substandard. We were not getting cooperation that we felt we should out of an eligible institution.

We ceased making loans in 1971. They closed their doors in 1973. Regarding this institution we were in constant contact with the Department of H.E.W., the Office of Education in San Francisco, and in Washington. They were fully informed of the problem but couldn't do anything about it because the Commissioner did not have the power to declare the school ineligible. They were also a school lender. In going right through 1973 they continued making loans which were guaranteed under this program and I know, right now, there are approximately $900,000 spread through credit unions in California and they have a very serious problem and it is extremely serious to them because they do not have servicing ability even to service the students.

Mr. O'HARA. On that point, I will yield to my colleague from Oregon.

Mr. DELLENBACK. Section 438, if it will open up a decent possibility of covering the problem, under 438(a), "eligibility of institution," there is contined in 10: "Any other provision of this part, the Commissioner is authorized to prescribe such regulations as may be necessary to provide for." Then we drop to subnumber 3: "The elimination, suspension or termination of eligibility of any party," and so forth, "whenever the Commissioner has determined that such a violation has occurred" and so forth as described in this part.

I wonder if the Commissioner does not already have statutory authority to write a regulation which covers this very situation to which you allude?

Mr. LANCASTER. If he has authority, he has not exercised it.

Mr. DELLENBACK. But he could have it from the standpoint of our responsibility in writing the law, whether section 438(a), sub 3, does or does not give him the grounds for doing that particular thing?

Anyway, the point you make is a serious one and it may be what you allude to could have occurred prior to this time, because the effective date is August 23, 1972. However, I thought you said the loans were made in August 1973.

Mr. LANCASTER. That is correct, but not by the Security Pacific.

Mr. DELLENBACK. Right. It is stated carefully then for the benefit of your own stockholders. It is made clear that it is not you making it.

Anyway, we appreciate your bringing this to our attention. From our standpoint, we will look at the question of doing anything legislatively. But a snap look at section 438 would lead me to think we already took care of that kind of problem by creating the right of the Secretary to do it. We will follow that up.

Mr. O'HARA. Mr. Lancaster, your criticism of increasing the potential maximum loan amount under the program is, I think, very well illustrated. Frankly, Mr. Lancaster, the existing loan limits worry me a little bit in terms of their size. Let's take your example. We have a student borrowing $2,500 a year for each of 4 years, owing a principal amount of $10,000 at the end of his college study. Payments would then be dependent on whether or not his loan had been interest-subsidized or whether or not he made payments, capital payments, which would then be either $116 a month or $145 a month.

Mr. Lancaster. That is correct.

Mr. O'Hara. It seems to me that is a tremendous amount.

Mr. Lancaster. $30 right there.

Mr. O'Hara. You know, that is a big load, really, to put on a new college graduate. I don't know what the average salary of a new college graduate is nowadays. Usually you are putting the burden on them at the time they are trying to buy a house and start a family and buy a car.

Mr. Lancaster. When that comes about, you have that educational loan and we feel this is the one reason for the high rate of bankruptcy, where the student declares bankruptcy immediately upon leaving school.

Let's say he has been subsidized during the course of his school period, he has $116.11 due a month for 10 years and that really gets to be a bore after a while, making $116.11 payments.

Mr. O'Hara. I pay almost that exact amount on a car that I bought a couple of years ago and I find it terribly irksome to keep paying on that car. I am not sure the car is any longer worth as much as I paid for it. I still owe it.

It is really quite a burden. I am concerned about the size of the loan.

Mr. Lancaster. We are, too; and this is the primary reason we oppose this.

Mr. O'Hara. You can count on me to oppose to the bitter end any effort to increase it. I might look with favor on some decrease, but certainly nothing to increase the size. "Learn now and pay later" has some merit, but a limited amount, I think.

I thank you, Mr. Lancaster.

Mr. Dellenback. May I ask one or two questions because of the time, Mr. Chairman?

We did not get into the full recommendations that were given by the previous witness at the tail end of his testimony, and I have not had a chance to examine them all, but one of them addresses this point of bankruptcy. "Recommendation 10: Congress should amend the national bankruptcy laws in such a manner to provide for nondischargability of guaranteed student loans in bankruptcy during the school period and during an additional minimum period of 5 years following end of repayment period." As a banker, what do you think of that kind of proposal?

Mr. Lancaster. It is a step in the right direction. It certainly is.

Mr. Dellenback. Insofar as the bank is concerned, I thought it might act as a caveat or as a red flag to someone who might overextend.

Mr. Lancaster. We have found that certain schools have a certain tendency where students come out and declare bankruptcy and I think once they get into a repayment program in this 5-year period, that 5-year period might be the right answer.

I think it is a step in the right direction.

Mr. **Dellenback.** I was very interested in your reaction to that. I would go along with the chairman in expressing appreciation for this testimony. It certainly make specific recommendations and it gives us your rationale for both the opposition that you expressed relevant to section 2 and section 5. You have provided us with very helpful information, and we will take that into careful consideration.

Your other four specific proposals I read with interest. We will take a very careful look at them. It may be that your fourth point is already taken care of statutorily, but if counsel comes to the conclusion it is not, we will welcome any further note you might send along to us in that particular regard. It may be that section 438 will take care of it. It might not, but it seems to me in first reading it, that the burden shifts to the Commission in this regard and they should be moving in to block that kind of situation.

Mr. **Lancaster.** In questioning the regional office of the Office of Education, they state that their counsel interprets this that they do not have power to declare a school ineligible.

Mr. **Dellenback.** Because they have not written the regulations that section 438 gives them the power to act.

Mr. **Lancaster.** Specifically, I don't know what the reasoning is.

Mr. **Dellenback.** Essentially, the point I'm making is if a good suggestion comes along, and this sounds to me like a good suggestion—the question is: Do we need the right statute to give authority to someone to do what should be done, or do we need to apprise somebody to move under already existing statutory authority to do what needs to be done?

We will do further exploring on that, but I thank you very much for your testimony.

Mr. **O'Hara.** Our final witness this morning will be Dr. Rembert Stokes, president of Wilberforce University, Wilberforce, Ohio. In addition to the many other crises and problems which a college must face these days, Wilberforce had to contend a short time ago with the consequences of a tornado which devastated the campus of this outstanding institution. We will hear what you have to say, Dr. Stokes, with the realization that there aren't many college presidents who have had exactly the kind of experience you have had with what we sometimes call the winds of change.

STATEMENT OF DR. REMBERT STOKES, PRESIDENT, WILBERFORCE UNIVERSITY, WILBERFORCE, OHIO, ACCOMPANIED BY CAMPBELL GRAF, FEDERAL PROGRAM DIRECTOR

Dr. **Stokes.** Mr. Chairman and members of the special subcommittee. We have lived through the crisis of the tornado and the first and foremost thing, after enduring the fury of that natural event, we are just happy to be alive and to be able to contemplate further our problems, as grave as they are, but we are also grateful for the tremendous response of the Federal Government and the many agencies in the Office of Education now that you have given us special assistance during this time.

Mr. Chairman, I appear before you to present testimony relating to student loans. As president of Wilberforce University my observations and recommendations derive from these unique institutional characteristics:

(1) It is the oldest black college, with 118 years of continuous educational effort.

(2) It is the only black college totally committed to cooperative education.

(3) Historically, it has a balanced and national student body.

In the Wilberforce experience, especially over the past 10 years, the loan has become the keystone of the four building blocks of our financial aid program. In a day of "entitlement" in the Federal guaranteed student loan is the indispensable filler after family scholarship-grant and job.

The guaranteed student loan falls short in three characteristics:

(1) Accessibility.

(2) Negotiability.

(3) After-college impact.

ACCESSIBILITY

Students from rural Georgia or students from innercity Philadelphia find it extremely difficult to assess the student loan possibilities of their local banks. Restrictive regulations further limit and discourage the beginning student. Recommendation re accessibility: Make colleges like Wilberforce bona fide lenders; allow loans to freshmen; allow yearly maximum of $3,000.

NEGOTIABILITY

We must be able to convert student notes to cash promptly and in full value—our experience since April is not encouraging. Neither commercial banks nor agencies of government seem prepared to liquidate our notes. Recommendation re negotiability: Clarify "due diligence," employ bonded outside entities if necessary—but act promptly on Federal guarantee. Develop accrediting and certifying bodies, State by State, to control and audit college fiscal and loan policies. Structure interest subsidy so that GSL will be competitive on the organized money markets.

AFTER-COLLEGE IMPACT

Wilberforce students secure loans from multiple sources over the 4 to 5 years it takes them to graduate. After graduation comes the realization! Each loan program has its own independent repayment minimum, and the total is frequently near to impossible.

On top of the above, we find marriage still a popular custom, and very frequently two Wilberforceans. How does this new family create an economic future when they combine their loan obligations? How can they consider a family? Recommendation re after-college impact: First, there needs to be a means of renegotiation. There needs to be an individualized program of repayment which considers family income and which pools all of the family's obligations.

Second, there needs to be a societal-benefit "write-off" as in NDSL.

SUMMARY

A reasonable Federal loan program can produce a new generation of creative and productive citizens—if the program is not handicapped by the conservative banking value which would expect capital equity in student and institution alike.

Wilberforce University suggests that you examine the attached chart, "The Wilberforce Plan", to realize how willing and able the low-income student. Note that the student commitment covered 79 percent of his needs in 1971–72. Note that he earned 56 percent of his needs.

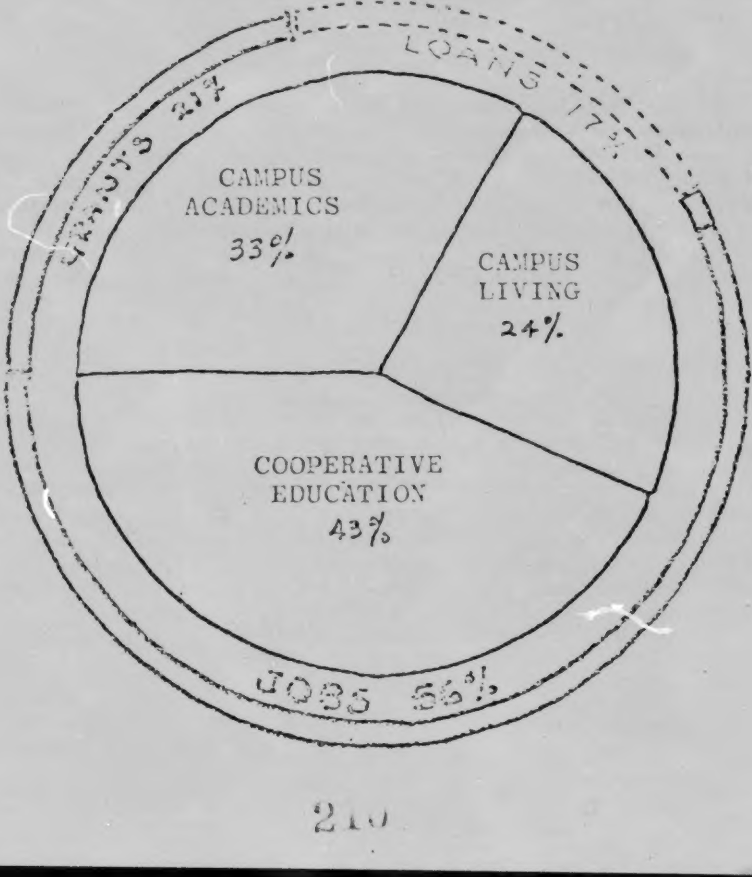
But realize the increasing importance of accessible, negotiable and reasonable Federal student loans.

I thank you, Mr. Chairman. I have with me the Federal program director, Mr. Campbell Graf, who over the past 8 years has placed several thousand students in co-op jobs.

If I could just allow him a moment to say a word about this chart, this study, he has made concerning grants and loans in jobs, I would appreciate it very much.

[The document referred to follows:]

THE WILBERFORCE PLANS, 1971–72—A 12-MONTH-A-YEAR PROGRAM FOR A STUDENT POPULATION WHICH AVERAGED 1187 . . .



	Expenditure	Per student	Percent
Elements of expense:			
Campus academics	$1,520,000	$1,270	33
Campus living	1,092,000	910	24
Off-campus living	1,988,000	1,670	43
Total expense	4,600,000	3,850	100
Elements of funding:			
Earnings	2,588,000	2,166	56
Grants	960,000	803	21
Loans	780,000	653	17
Family	272,000	228	6
Total funding	4,600,000	3,850	100
Elements of earnings:			
Campus earnings	600,000	500	23
Cooperative education	1,988,000	1,680	77
Total earnings	2,588,000	2,180	100

WILBERFORCE UNIVERSITY

STUDENT INCOME AND EXPENSE

[1,163 students (average)]

	Amount	Average	Percent
Expense, by plan groups:			
Plan 1—3 study/no work	$1,995,000		
Plan 2—2 study/no work	255,000		
Plan 3—1 study/2 work	920,000		
Plan 4—2 study/1 work	890,000		
Plan 5—1 study/no work	225,000		
Plan 6—1 study/1 work	890,008		
Total expense	5,175,058	$4,450	
Form 1036 Income, by source:			
E6 Veterans' Administration	38,984		
E5 Social Security	31,200		
E7			
E9 State grants	164,000		
E8 Institutional scholarships	41,386		
E4 Loans, other	53,712		
E2 Institional loans	0		
Total	329,282	283	6
47 NDSL	819,626	705	[illegible]6
Parents—Non-SEOG students	250,000		
F3 Parents—SEOG students	129,000		
E3 Co-op—Non-CWSP	1,535,280		
E1 Campus jobs—Non-CWSP	243,515		
Total	2,157,795	1,855	42
E3 Co-op jobs—CWSP	610,100		
E1 Campus jobs—CWSP	411,105		
Total	1,021,205	878	[illegible]
EOG	847,150	728	16
Total income	5,175,058	4,450	100

Mr. O'HARA. We would appreciate him coming up and testifying about the chart.

Mr. GRAF. As cooperative education has become an integral part, you will find that the student costs represented in these three elements of the inner circling out to 43 percent for his cost of living and working, and 24 percent for the campus living and 33 percent for the campus academic.

Then, he starts to meet those costs, our students are earning enough to meet all off-campus costs and move halfway through campus living costs. The family percentage is 6 percent, a litte more in campus living and then you start from here over here and the grants, whether scholarships or governmental grants, cover two-thirds perhaps of campus academic and then the loan fills in the gaps. He mentioned the necessary filler on the loan end. On an individual basis that allows at the moment when we need it to complete the package and makes it a reasonable way for the youngster to go.

I think that a lot of the questions we have heard this morning become somewhat more pragmatic because when we have an employer involved and he sees potential for a youngster, an awful lot of repayment and the problems of how a man controls finances, and whether colleges get into the business of lending becomes really superficial because the youngster is going to work at a given employer site and wants to build a home or whatever else, and he is going to protect his credit and the employer also will look to catching his credit and protection of his credit image.

Mr. O'Hara. Thank you very much.

Dr. Stokes. I don't think this subcommittee has, in the time I have been chairman, ever had a witness that said so much in just a few words, so I want to award you the loving cup for that.

Dr. Stokes. Thank you, Mr. Chairman.

Mr. O'Hara. And were you a graduate of Wilberforce?

Dr. Stokes. Yes, I am.

Mr. O'Hara. I will tell you Wilberforce gives a good education because you have been able to put it all in a nutshell and I don't think I ever had a better witness. I want you to know that to start off with.

Dr. Stokes. Thank you.

Mr. O'Hara. The points you make are really excellent and they are points that we have been concerned about. The whole business of accessibility, clearly, the argument could be made that the loan that is obtained from the college is much more accessible than the one when you have to go to a private lender, but if the college is the lender, essentially there are two complaints made, and one is if the college is the lender, the default rate will go up and the delinquency rate, and they are not going to be as good about collecting and it is not going to seem as real an obligation as it would seem if they went down to the marble halls of the banks and met with the stony-hearted president and had him glare at them for a while and tell them what a favor he was doing them.

I don't know about that, it may be so. Secondly, it has been said that only the wealthy institutions would be able to finance this kind of operation and that the less well-endowed colleges would just be squeezed right out.

I would like to hear from you on this. What about the question of delinquency and default? What has your experience been? How does it compare to the general experience?

Dr. Stokes. It has been a very serious question with us. I am sure initially, through the NDSL program, we did not give enough orientation to the student about his obligations, and many students, I am sure, of our colleges, consider these loans as grants which they were not expected to repay.

So we have improved our program of preloan counseling and post-loan counseling and when the student makes his exist from the college, we have tightened up our procedures considerably. In the earlier years when our efforts of collection were made and so forth, of course the job opportunities had not been as plentiful for black students as they are today and especially now with our co-op education program, and the students getting job orientation and some personal financial responsibility as he completes his education, this has been improved.

But I agree, when the college does it, there is still a likelihood of a greater length of time.

Mr. O'HARA. But you aren't one of the wealthy institutions, you aren't very well to do, I don't suppose, I mean the fact you have been able to run a loan program suggests that sometimes less well-endowed institutions are able to run loan programs if they want to.

Dr. STOKES. Well, we have had difficulties in funding our loans. We have now gained our FISL license and we have perhaps at the moment for the past two terms about a quarter million dollars in loans that we would like to have purchased by some agency.

Mr. O'HARA. Where do you get your capital for the FISL loans that you mentioned?

Dr. STOKES. That is our problem. We have not as yet been able to find a commercial bank to buy the loans, so we are in negotiations now with a Chicago bank, but it has not happened yet. This poses a serious problem for us.

Mr. O'HARA. I assume that is the same Chicago bank that has testified to us before.

Dr. STOKES. Right.

Mr. O'HARA. It happens we are voting on something. I am going to try to learn from your example and not spend a long time on questioning you and we are going to have to leave in about 5 minutes. I will ask Mr. Dellenback if he had been inspired enough to ask a couple of brief questions.

Mr. DELLENBACK. Your testimony has been very helpful, Dr. Stokes, and we thank you for it. I would just ask a couple of followup questions that are not simple; you stimulated them with a couple of your recommendations. Making loans by Wilberforce is a vital interest.

Dr. STOKES. I am speaking predominently here of the fact that it can cause universities like Wilberforce problems.

Mr. DELLENBACK. Should we be difficult in allowing colleges to qualify, or should we be lax?

Dr. STOKES. I am sure there would have to be due diligence and I think fairly stringent requirements should be placed upon colleges in making loans.

Mr. DELLENBACK. You would have colleges directly involved in making loans, as one of the earlier witnesses suggested, but you would put restrictions on their qualifying?

Dr. STOKES. Yes.

Mr. DELLENBACK. You talk about a maximum of $3,000. Is it important to raise the limit?

Dr. STOKES. I think it is for some students, even as they move through their co-op period, going into very low-paying kinds of vocations initially. They would not receive the kind of remuneration in these jobs for these three trimesters they worked to afford them the kind of yield to meet their tuitions when they return to college.

Mr. Dellenback. You have heard the earlier comments on loan limitations and the difficulties that face those with loans in future years. Shouldn't we be trying legislatively to make dollars available to permit the students to get their education, but keep it as low a figure as possible so that the student does not go out and find himself or herself smothered by the loan balance?

Dr. Stokes. Well, yes, on an individual basis. I think this is absolutely true.

Mr. Dellenback. It seems almost necessary; it is almost an inevitable consequence that a student will attempt to go to the maximum and that the institution will tend to permit the maximum.

Dr. Stokes. Without very careful administration of that, I admit the danger in that possibility.

Mr. Dellenback. While many institutions have first-rate loan offices, we have heard testimony that there is a sizable number of institutions where loan programs are less than adequately administered. But, that is not part of the question.

Your comment on structuring the subsidy so it will be a competitively organized money market is fundamental, and it must be so. The prior witness testified even though there is a great deal of public service involved they are not going to subsidize it. They want protection.

One last question on the financial recommendation under your third point dealing with a societal benefit "write-off." That is one of the points that Congress has been working its way toward, finding there are all sorts of difficulties and problems attached to it. Would you limit very narrowly the write-off, so that only if the student does certain very stringent things that there would be a write-off?

Dr. Stokes. Yes: I think that certain vocational choices such as teaching and some other types of public service jobs which would be filled for X-number of years would give him some reduction in amount to be paid.

Mr. Dellenback. Do you think it should be broad enough to include teaching? I think it has been proven that is too broad. In terms of the limited dollars, that might not be one of the best fields for a write-off given our oversupply of teachers.

Dr. Stokes. This is true, too; but I think it ought to be some other types of public service jobs which are traditionally low-paying which might be considered the kind of jobs.

Mr. Dellenback. I wish there were more time because I would like to follow up some other areas, but may I close by saying I thank you personally for what I think is helpful and very welcome testimony.

Dr. Stokes. Thank you very much.

Mr. O'Hara. Thank you very much, Dr. Stokes.

Today's hearing concluded the testimony on the loan component, though I will ask unanimous consent that the staff may receive and make a part of the hearing record other data relevant to the loan program.

Tomorrow we will turn to problems of graduate education, and specifically on financial assistance to graduate students. Our witness will be from the National Board on Graduate Education.

The subcommittee stands adjourned until 10 o'clock tomorrow morning in room 2261, this building.

[Whereupon at 12:10 p.m., the subcommittee adjourned, to reconvene the following day at 10 a.m.]

[The following material was submitted for the record:]

[Excerpts from the Higher Education Act of 1965 as amended, and other legislation]

HIGHER EDUCATION ACT, TITLE IV

Part B—Federal, State, and Private Programs of Low-Interest Insured Loans to Students in Institutions of Higher Education[1]

STATEMENT OF PURPOSE AND APPROPRIATIONS AUTHORIZED

Sec. 421. (a) The purpose of this part is to enable the Commissioner (1) to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions (as defined in section 435), (2) to provide a Federal program of student loan insurance for students or lenders who do not have reasonable access to a State or private nonprofit program of student loan insurance covered by an agreement under section 428(b), (3) to pay a portion of the interest on loans to qualified students which are made by a State under a direct loan program meeting the requirements of section 428(a)(1)(B), or which are insured under this part or under a program of a State or of a nonprofit private institution or organization which meets the requirements of section 428(a)(1)(C), and (4) to guarantee a portion of each loan insured under a program of a State or of a nonprofit private institution or organization which meets the requirements of section 428(a)(1)(C).

(b) For the purpose of carrying out this part—

(1) there are authorized to be appropriated to the student loan insurance fund (established by section 431) (A) the sum of $1,000,000, and (B) such further sums, if any, as may become necessary for the adequacy of the student loan insurance fund,

(2) there are authorized to be appropriated, for payments under section 428 with respect to interest and administrative cost allowances on student loans and for payments under section 437, such sums for the fiscal year ending June 30, 1966, and succeeding fiscal years, as may be required therefor,

(3) there is authorized to be appropriated the sum of $17,500,000 for making advances pursuant to section 422 for the reserve funds of State and nonprofit private student loan insurance programs, and

(4) there is authorized to be appropriated the sum of $12,500,000 for making advances after June 30, 1968, pursuant to sec-

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[1] "The Emergency Insured Student Loan Act of 1969" modifies title IV–B with respect to special allowances for lenders of insured student loans. Text appears on page 205.

tion 422 for the reserve funds of State and nonprofit private student loan insurance programs.

Sums appropriated under clauses (1), (2) and (4) of this subsection shall remain available until expended, and sums appropriated under clause (3) of this subsection shall remain available for advances under section 422 until the close of the fiscal year ending June 30, 1968.

(20 U.S.C. 1071) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 421, 79 Stat. 1236; amended Aug. 3, 1968, P.L. 90–460, secs. 2, 3, 82 Stat. 635–6; amended Oct. 16, 1968, P.L. 90–575, Title I, secs. 113, 114, 119, 82 Stat. 1020, 1021, 1027.

ADVANCES FOR RESERVE FUNDS OF STATE AND NONPROFIT PRIVATE LOAN INSURANCE PROGRAMS

SEC. 422. (a)(1) From the sums appropriated pursuant to clauses (3) and (4) of section 421(b), the Commissioner is authorized to make advances to any State with which he has made an agreement pursuant to section 428(b) for the purpose of helping to establish or strengthen the reserve fund of the student loan insurance program covered by that agreement. If for any fiscal year a State does not have a student loan insurance program covered by an agreement made pursuant to section 428(b), and the Commissioner determines after consultation with the chief executive officer of that State that there is no reasonable likelihood that the State will have such a student loan insurance program for such year, the Commissioner may make advances for such year for the same purpose to one or more nonprofit private institutions or organizations with which he has made an agreement pursuant to section 428(b) in order to enable students in that State to participate in a program of student loan insurance covered by such an agreement. The Commissioner may make advances under this subsection both to a State program (with which he has such an agreement) and to one or more nonprofit private institutions or organizations (with which he has such an agreement) in that State if he determines that such advances are necessary in order that students in each eligible institution have access through such institution to a student loan insurance program which meets the requirements of section 428(b)(1).

(2) No advance shall be made after June 30, 1968, unless matched by an equal amount from non-Federal sources. Such equal amount may include the unencumbered non-Federal portion of a reserve fund. As used in the preceding sentence, the term "unencumbered non-Federal portion" means the amount (determined as of the time immediately preceding the making of the advance) of the reserve fund less the greater of (A) the sum of (i) advances made under this section prior to July 1, 1968, (ii) an amount equal to twice the amount of advances made under this section after June 30, 1968, and before the advance for purposes of which the determination is made, and (iii) the proceeds of earnings on advances made under this section, or (B) any amount which is required to be maintained in such fund pursuant to State law or regulation, or by agreement with lenders, as a reserve against the insurance of outstanding loans.

(3) Advances pursuant to this subsection shall be upon such terms and conditions (including conditions relating to the time or times of payment) consistent with the requirements of section 428(b) as the Commissioner determines will best carry out the purposes of this

section. Advances made by the Commissioner under this subsection shall be repaid within such period as the Commissioner may deem to be appropriate in each case in the light of the maturity and solvency of the reserve fund for which the advance was made.

(b) (1) The total of the advances to any State prior to July 1, 1968, pursuant to subsection (a) may not exceed an amount which bears the same ratio to 2½ per centum of $700,000,000 as the population of that State aged eighteen to twenty-two, inclusive, bears to the total population of all the States aged eighteen to twenty-two, inclusive. The amount available, however, for advances to any State for each fiscal year ending prior to July 1, 1968, shall not be less than $25,000, and any additional funds needed to meet this requirement shall be derived by proportionately reducing (but not below $25,000 per year) the amount available for advances to each of the remaining States. Advances to nonprofit private institutions and organizations prior to July 1, 1968, pursuant to subsection (a) may be in such amounts as the Commissioner determines will best achieve the purposes for which they are made, except that the sum of (1) advances to such institutions and organizations for the benefit of students in any State plus (2) the amounts advanced to such State, may not exceed the maximum amount which may be advanced to that State pursuant to the first two sentences of this subsection.

(2) The total of the advances from the sums appropriated pursuant to clause (4) of section 421(b) (A) to nonprofit private institutions and organizations for the benefit of students in any State and (B) to such State may not exceed an amount which bears the same ratio to such sums as the population of such State aged eighteen to twenty-two, inclusive, bears to the population of all the States aged eighteen to twenty-two, inclusive, but such advances may otherwise be in such amounts as the Commissioner determines will best achieve the purposes for which they are made. The amount available, however, for advances to any State shall not be less than $25,000, and any additional funds needed to meet this requirement shall be derived by proportionately reducing (but not below $25,000) the amount available for advances to each of the remaining States.

(3) For the purposes of this subsection, the population aged eighteen to twenty-two, inclusive, of each State and of all the States shall be determined by the Commissioner on the basis of the most recent satisfactory data available to him.

(20 U.S.C. 1072) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 422, 79 Stat. 1236; amended Nov. 3, 1966, P.L. 89–752, sec. 11, 80 Stat. 1243; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 114, 82 Stat. 1021.

EFFECTS OF ADEQUATE NON-FEDERAL PROGRAMS

SEC. 423. (a) Except as provided in subsection (b), the Commissioner shall not issue certificates of insurance under section 429 to lenders in a State if he determines that every eligible institution has reasonable access in that State to a State or private nonprofit student loan insurance program which is covered by an agreement under section 428(b).

(b) The Commissioner may issue certificates of insurance under section 429 to a lender in a State—

(1) for insurance of a loan made to a student borrower who does not, by reason of his residence, have access to loan insurance under the loan insurance program of such State (or under any private nonprofit loan insurance program which has received an advance under section 422 for the benefit of students in such State), or

(2) for insurance of all of the loans made to student borrowers by a lender who satisfies the Commissioner that, by reason of the residence of such borrowers, he will not have access to any single State or nonprofit private loan insurance program which will insure substantially all of the loans he intends to make to such student borrowers.

(20 U.S.C. 1073) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 423, 79 Stat. 1237; amended Oct. 16, 1968, P.L. 90-575, sec. 119, 82 Stat. 1026.

SCOPE AND DURATION OF FEDERAL LOAN INSURANCE PROGRAM

Sec. 424 (a) The total principal amount of new loans made and installments paid pursuant to lines of credit (as defined in section 435) to students covered by Federal loan insurance under this part shall not exceed $1,400,000,000 for the fiscal year ending June 30, 1972, $1,600,000,000 for the fiscal year June 30, 1973, $1,800,000,000 for the fiscal year ending June 30, 1974, and $2,000,000,000 for the fiscal year ending June 30, 1975. Thereafter, Federal loan insurance pursuant to this part may be granted only for loans made (or for loan installments paid pursuant to lines of credit) to enable students, who have obtained prior loans insured under this part, to continue or complete their educational program; but no insurance may be granted for any loan made or installment paid after June 30, 1979.

(b) The Commissioner may, if he finds it necessary to do so in order to assure an equitable distribution of the benefits of this part, assign, within the maximum amounts specified in subsection (a), Federal loan insurance quotas applicable to eligible lenders, or to States or areas, and may from time to time reassign unused portions of these quotas.

(20 U.S.C. 1074) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 424, 79 Stat. 1237; amended Aug. 3, 1968, P.L. 90–460, sec. 1, 82 Stat. 634; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 112, 82 Stat. 1020; amended June 23, 1972, P.L. 92–318, sec. 132(a), 86 Stat. 261.

LIMITATIONS ON INDIVIDUAL FEDERALLY INSURED LOANS AND ON FEDERAL LOAN INSURANCE

Sec. 425. (a) The total of the loans made to a student in any academic year or its equivalent (as determined under regulations of the Commissioner) which may be covered by Federal loan insurance under this part may not exceed $2,500, except in cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high costs of education. The aggregate insured unpaid principal amount for all such insured loans made to any student shall not at any time exceed $7,500, in the case of any student who has not succesfully completed a program of undergraduate education, and $10,000 in the case of any graduate or professional student (as defined by regulations of the Commissioner and including any loans which are insured by the Commissioner under this part or by a State or nonprofit institution or organization with which the Commissioner has an agreement under section 428(b) made to such person before he became a graduate or professional student). The annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit.

(b) The insurance liability on any loan insured by the Commissioner under this part shall be 100 per centum of the unpaid balance of the principal amount of the loan plus interest. The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under the provisions of section 430 or 437 of this part.

(20 U.S.C. 1075) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 425, 79 Stat. 1238; amended Oct. 16, 1968, P.L. 90–575, Title I, secs. 116, 120, 82 Stat. 1023 and 1027; amended June 23, 1972, P.L. 92–318, sec. 132(a), 86 Stat. 261; further amended June 23, 1972, P.L. 92–318, sec. 132B(a), 86 Stat. 262.

SOURCES OF FUNDS

SEC. 426. Loans made by eligible lenders in accordance with this part shall be insurable by the Commissioner whether made from funds fully owned by the lender or from funds held by the lender in a trust or similar capacity and available for such loans.

(20 U.S.C. 1076) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 426, 79 Stat. 1238.

ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF FEDERALLY INSURED STUDENT LOANS

SEC. 427. (a) A loan by an eligible lender shall be insurable by the Commissioner under the provisions of this part only if—

(1) made to a student who (A) has been accepted for enrollment at an eligible institution or, in the case of a student already attending such institution, is in good standing there as determined by the institution, and (B) is carrying at least one-half of the normal full-time workload as determined by the institution; and

(2) evidenced by a note or other written agreement which—

(A) is made without security and without endorsement, except that if the borrower is a minor and such note or other written agreement executed by him would not, under the applicable law, create a binding obligation, endorsement may be required,

(B) provides for repayment (except as provided in subsection (c)) of the principal amount of the loan in installments over a period of not less than five years (unless sooner repaid) nor more then ten years beginning not earlier than nine months nor later than one year after the date on which the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution, except (i) as provided in clause (C) below, (ii) that the period of the loan may not exceed fifteen years from the execution of the note or written agreement evidencing it, and (iii) that the note or other written instrument may contain such provisions relating to repayment in the event of default in the payment of interest or in the payment of the cost of insurance premiums, or other default by the borrower, as may be authorized by regulations of the Commissioner in effect at the time the loan is made,

(C) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period (i) during which the borrower is pursuing a full-time course of study at an "eligible institution", (ii) not in excess of three years, during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, or (iv) not in excess of three years during which the borrower is in service as a full time volunteer under title VIII of the Economic Opportunity Act of 1964, and any such period shall not be included in determining the ten-year period or the fifteen-year period provided in clause (B) above,

(D) provides for interest on the unpaid principal balance of the loan at a yearly rate, not exceeding the applicable maximum rate prescribed and defined by the Secretary (within the limits set forth in subsection (b)) on a national, regional, or other appropriate basis, which interest shall be payable in installments over the period of the loan except that, if provided in the note or other written agreement, any interest payable by the student may be deferred until not later than the date upon which repayment of the first installment of principal falls due, in which case interest that has so accrued during that period may be added on that date to the principal,

(E) provides that the lender will not collect or attempt to collect from the borrower any portion of the interest on the note which is payable by the Commissioner under this part, and that the lender will enter into such agreements with the Commissioner as may be necessary for the purposes of section 437,

(F) entitles the student borrower to accelerate without penalty repayment of the whole or any part of the loan, and

(G) contains such other terms and conditions, consistent with the provisions of this part and with the regulations issued by the Commissioner pursuant to this part, as may be agreed upon by the parties to such loan, including, if agreed upon, a provision requiring the borrower to pay to the lender, in addition to principal and interest, amounts equal to the insurance premiums payable by the lender to the Commissioner with respect to such loan.

(b) No maximum rate of interest prescribed and defined by the Secretary for the purposes of clause (2)(D) of subsection (a) may exceed 7 per centum per annum on the unpaid principal balance of the loan.

(c) The total of the payments by a borrower during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are are insured under this part, or which are made by a State or the Commissioner under section 425(a)(1)(B) or 433, respectively, shall not be less than $360 or the balance of all of such loans (together with interest therein), whichever amount is less.

(20 U.S.C. 1077) Enacted Nov. 8, 1965, P.L. 89–320, Title IV, sec. 427, 79 Stat. 1238, amended Nov. 8, 1966, P.L. 89–794, Title XI, sec. 1101(b), 80 Stat. 1476; amended Aug. 3, 1968, P.L. 90–460, sec. 2, 82 Stat. 635; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 113, 116, 120, 82 Stat. 1021, 1023, 1027; amended June 23, 1972, P.L. 92–318, sec. 132B(b), 86 Stat. 262; further amended June 23, 1972, P.L. 92–318, sec. 132C(c), 86 Stat. 263.

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a)

(1) Each student who has received a loan for study at an eligible institution—

(A) which is insured by the Commissioner under this part;

(B) which was made under a State student loan program (meeting criteria prescribed by the Commissioner), and which was contracted for, and paid to the student, within the period specified by paragraph (5); or

(C) which is insured under a program of a State or of a nonprofit private institution or organization which was contracted for, and paid to the student, within the period specified in paragraph (5), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagrph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than sixty days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, is insured under a program covered by an agreement made pursuant to subsection (b).

shall be entitled to have paid on his behalf and for his account to the holder of the loan a portion of the interest on such loan at the time of execution of the note or written agreement evidencing such loan under circumstances described in paragraph (2).

(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall—

(i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment or at which he is in attendance in good standing (as determined by such institution), which—

(I) sets forth such student's estimated costs of attendance, and

(II) sets forth such student's estimated financial assistance; and

(ii) meet the requirements of subparagraph (B).

(B) For the purposes of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if such student's adjusted family income—

(i) is less than $15,000, and—

(I) the amount of such loan would not cause the total amount of the student's loans insured by the Commissioner under this part or by a State or nonprofit private institution or organization which has an agreement under subsection (b) to exceed $2,000 in any academic year, or its equivalent, or

(II) the amount of such loan would cause the total amounts of the loans described in clause (I) of this subparagraph of that student to exceed $2,000 in any academic year or its equivalent, and the eligible institution has provided, with respect to the amount of such loans in excess of $2,000, the lender with a statement recommending the amount of such excess; or

(ii) is equal to or greater than $15,000, and the eligible institution has provided the lender with a statement evidencing a determination of need and recommending a loan in the amount of such need.

(C) For the purposes of paragraph (1) and this paragraph—

(i) a student's estimated cost of attendance means, for the period for which the loan is sought, the tuition and fees applicable to such student together with the institution's estimate of other expenses reasonably related to attendance at such institution, including, but not limited to, the cost of room and board, reasonable commuting costs, and costs for books;

(ii) a student's estimated financial assistance means, for the period for which the loan is sought, the amount of assistance such student will receive under parts A, C, and E of this title, plus other scholarship, grant, or loan assistance;

(iii) the term "eligible institution" when used with respect to a student is the eligible institution at which the student has been accepted for enrollment or, in the case of a student who is in attendance at such an institution is in good standing (as determined by such institution);

(iv) the determination of need and the amount of a loan recommended by an eligible institution under subparagraph (B)(ii) and the amount of loans in excess of $2,000 recommended by an eligible institution under subparagraph (B)(i)(II) with respect to a student shall be determined by subtracting from the estimated cost of attendance at such institution the total of the expected family contribution with respect to such student (as determined by means other than one formulated by the Commissioner under subpart 1 of part A of this title) plus any other resources or student financial assistance reasonably available to such student.

(D) In addition, the Commissioner shall pay an administrative cost allowance in the amount established by paragraph (3)(B) of this subsection with respect to loans to any student without regard to the borrower's need. For the purposes of this paragraph, the adjusted family income of a student shall be determined pursuant to regulations of the Commissioner in effect at the time of the execution of the note or written agreement evidencing the loan. Such regulations shall provide for taking into account such factors, including family size, as the Commissioner deems appropriate. In the absence of fraud by the lender, such determination of the need of a student under this paragraph shall be final insofar as it concerns the obligation of the Commissioner to pay the holder of a loan a portion of the interest on the loan.

(3)(A) The portion of the interest on a loan which a student is entitled to have paid on his behalf and for his account to the holder of the loan pursuant to paragraph (1) of this subsection shall be equal to the total amount of the interest on the unpaid principal amount of the loan which accrues prior to the beginning of the repayment period of the loan, or which accrues during a period in which principal need not be paid (whether or not such principal is in fact paid) by reason of a provision described in subsection (e) of this section or in section 427(a)(2)(C); but such portion of the interest on a loan shall not exceed, for any period, the amount of the interest on that loan which is payable by the student after taking into consideration the amount of any interest on that loan which the student is entitled to have paid on his behalf for that period under any State or private loan insurance program. The holder of a loan with respect to which payments are required to be made under this section shall be deemed to have a contractual right, as against the United States, to receive from the Commissioner the portion of interest which has been so determined and the administrative cost allowance payable under this subsection. The Commissioner shall pay this portion of the interest and administrative cost allowance to the holder of the loan on behalf of and for the account of the borrower at such times as may be specified in regulations in force when the applicable agreement entered into pursuant to subsection (b) was made, or if the loan was made by a State or is insured under a program which is not covered by such an agreement, at such times as may be specified in regulations in force at the time the loan was paid to the student.

(B) If (i) a State student loan insurance program is covered by an agreement under subsection (b), (ii) a statute of such State limits the interest rate on loans insured by such program to a rate which is less than 7 per centum per annum on the unpaid principal balance, and (iii) the Commissioner determines that section 428(d) does not make such statutory limitation inapplicable and that such statutory limitation threatens to impede the carrying out of the purposes of this part, then he may pay an administrative cost allowance to the holder of each loan which is insured under such program and which is made during the period beginning on the sixtieth day after the date of enactment of the Higher Education Amendments of 1968 and ending 120 days after the adjournment of such State's first regular legislative session which adjourns after January 1, 1969. Such administrative cost allowance shall be paid over the term of the loan in an amount per annum (determined by the Commissioner) which shall not exceed 1 per centum of the unpaid principal balance of the loan.

(4) Each holder of a loan with respect to which payments of interest or of administrative cost allowances are required to be made by the Commissioner shall submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan.

(5) The period referred to in subparagraphs (B) and (C) of paragraph (1) of this subsection shall begin on the date of enactment of this Act and end at the close of June 30, 1975, except that, in the case of a loan made or insured under a student loan or loan insurance program to enable a student who has obtained a prior loan made or insured under such program to continue his educational program, such period shall end at the close of June 30, 1979.

(6) No payment may be made under this section with respect to the interest on a loan made from a student loan fund established under title II of the National Defense Education Act of 1958.

(7) Nothing in this or any other Act shall be construed to prohibit or require unless otherwise specifically provided by law, a lender to evaluate the total financial situation of a student making application for a loan under this part, or to counsel a student with respect to any such loan, or to make a decision based on such evaluation and counseling with respect to the dollar amount of any such loan.

(b)(1) Any State or any nonprofit private institution or organization may enter into an agreement with the Commissioner for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Commissioner determines that the student loan insurance program—

(A) authorizes the insurance of not less than $1,000 nor more than $2,500, (except in those cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high costs of education) in loans to any individual student in any academic year or its equivalent (as determined under regulations of the Commissioner), which limit shall not be deemed exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any such year in excess of such annual limit; and provides that the aggregate insured unpaid principal amount of all such insured loans made to any student shall not at any time exceed $7,500 in the case of any student who has successfully completed a program of undergraduate education, and $10,000 in the case of any graduate or professional student (as defined by regulations of the Commissioner and including any loans which are insured by the Commissioner under this part or by a State or nonprofit institution or organization with which the Commissioner has an agreement under this part made to such person before he became a graduate or professional student);

(B) authorizes the insurance of loans to any individual student for at least six academic years of study or their equivalent (as determined under regulations of the Commissioner);

(C) provides that (i) the student borrower shall be entitled to accelerate without penalty the whole or any part of an insured loan, (ii) except as provided in subsection (e) of this section, the period of any insured loan may not exceed fifteen years from the date of execution of the note or other written evidence of the loan, and (iii) the note or other written evidence of any loan may contain such provisions relating to repayment in the event of default by the borrower as may be authorized by regulations of the Commissioner in effect at the time such note or written evidence was executed;

(D) subject to paragraphs (C) and (K) of this paragraph and except as provided by subsection (e) of this section, provides that repayment of loans shall be in installments over a period of not less than five years nor more than ten years beginning not earlier than nine months nor later than one year after the student ceases to pursue a full-time course of study at an eligible institution, except that if the program provides for the insurance of loans for part-time study at eligible institutions the program shall provide that such repayment period shall begin not earlier than nine months nor later than one year after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution;

(E) authorizes interest on the unpaid balance of the loan at a yearly rate not in excess of 7 per centum per annum on the unpaid principal balance of the loan (exclusive of any premium for insurance which may be passed on to the borrower);

(F) insures not less than 80 per centum of the unpaid principal of loans insured under the program;

(G) does not provide for collection of an excessive insurance premium;

(H) provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under section 428(a) (1) and (2) except in the case of loans made by an instrumentality of a State or eligible institution;

(I) provides that a student may obtain insurance under the program for a loan for any year of study at an eligible institution;

(J) in the case of a State program, provides that such State program is administered by a single State agency, or by one or more nonprofit private institutions or organizations under the supervision of a single State agency;

(K) provides that the total of the payments by a borrower during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are (i) insured under this part, or (ii) made by a State or the Commissioner under section 428(a)(1)(B) or 433, respectively, shall not be less than $360 or the balance of all such loans (together with interest thereon), whichever amount is less; and

(L) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid during any period (i) during which the borrower is pursuing a full-time course of study at an eligible institution, (ii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, or (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under title VIII of the Economic Opportunity Act of 1964.

(2) Such an agreement shall—

(A) provide that the holder of any such loan will be required to submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan;

(B) include such other provisions as may be necessary to protect the financial interest of the United States and promote the purposes of this part, including such provisions as may be necessary for the purpose of section 437, and as are agreed to by the Commissioner and the State or nonprofit private organization or institution, as the case may be; and

(C) provide for making such reports in such form and containing such information as the Commissioner may reasonably require to carry out his function under this part and for keeping such records and for affording such access thereto as the Commissioner may find necessary to assure the correctness and verification of such reports.

(c) (1) The Commissioner may enter into a guaranty agreement with any State or any nonprofit private institution or organization with which he has an agreement pursuant to subsection (b), whereby the Commissioner shall undertake to reimburse it, under such terms and conditions as he may establish, in an amount equal to 80 per centum of the amount expended by it in discharge of its insurance obligation, incurred under its loan insurance program, with respect to losses (resulting from the default of the student borrower) on the unpaid balance of the principal (other than interest added to principal) of any insured loan with respect to which a portion of the interest (A) is payable by the Commissioner under subsection (a), or (B) would be payable under such subsection but for the borrower's lack of need.

(2) The guaranty agreement—

(A) shall set forth such administrative and fiscal procedures as may be necessary to protect the United States from the risk of unreasonable loss thereunder, to insure proper and efficient administration of the loan insurance program, and to assure that due diligence will be exercised in the collection of loans insured under the program;

(B) shall provide for making such reports, in such form and containing such information, as the Commissioner may reasonably require to carry out his functions under this subsection, and for keeping such records and for affording such access thereto as the Commissioner may find necessary to assure the correctness and verification of such reports;

(C) shall set forth adequate assurance that, with respect to so much of any loan insured under the loan insurance program as may be guaranteed by the Commissioner pursuant to this subsection, the undertaking of the Commissioner under the guaranty agreement is acceptable in full satisfaction of State law or regulation requiring the maintenance of a reserve;

(D) shall provide that if, after the Commissioner has made payment under the guaranty agreement pursuant to paragraph (1) of this subsection with respect to any loan, any payments are made in discharge of the obligation incurred by the borrower with respect to such loan (including any payments of interest accruing on such loan after such payment by the Commissioner), there shall be paid over to the Commissioner (for deposit in the fund established by section 431) such proportion of the amounts of such payments as is determined (in accordance with regulations prescribed by the Commissioner) to represent his equitable share thereof, but shall not otherwise provide for subrogation of the United States to the rights of any insurance beneficiary: *Provided*, That, except as the Commissioner may otherwise by or pursuant to regulation provide, amounts so paid by a borrower on such a loan shall be first applied in reduction of principal owing on such loan; and

(E) may include such other provisions as may be necessary to promote the purposes of this part.

(3) To the extent provided in regulations of the Commissioner, a guaranty agreement under this subsection may contain provisions which permit such forbearance for the benefit of the student borrower as may be agreed upon by the parties to an insured loan and approved by the insurer.

(4) For purposes of this subsection, the terms "insurance beneficiary" and "default" shall have the meanings assigned to them by section 430(e).

(5) In the case of any guaranty agreement entered into prior to September 1, 1969, with a State or nonprofit private institution or organization with which the Commissioner has in effect on that date an agreement pursuant to subsection (b) of this section, or section 9(b) of the National Vocational Student Loan Insurance Act of 1965, made prior to the date of enactment of this subsection, the Commissioner may, in accordance with the terms of this subsection, undertake to guarantee loans described in paragraph (1) which are insured by such State, institution, or organization and are outstanding on the date of execution of the guaranty agreement, but only with respect to defaults occurring after the execution of such guaranty agreement or, if later, after its effective date.

(d) No provision of any law of the United States (other than sections 427(a)(2)(D) and 427(b) of this Act) or of any State (other than a statute applicable principally to such State's student loan insurance program) which limits the rate or amount of interest payable on loans shall apply to a loan—

(1) which bears interest (exclusive of any premium for insurance) on the unpaid principal balance at a rate not in excess of 7 per centum per annum, and

(2) which is insured (A) by the United States under this part, or (B) by a State or nonprofit private institution or organization under a program covered by an agreement made pursuant to subsection (b) of this section.

(20 U.S.C. 1078) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 428, 79 Stat. 1240; amended Aug. 3, 1968, P.L. 90–460, sec. 1, 2, 3, 82 Stat. 634–638; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 111, 112, 113, 115, 116, 117, 120, 82 Stat. 1020–27; amended June 23, 1972, P.L. 92–318, sec. 132(b), 86 Stat. 261; further amended June 23, 1972, P.L. 92–318, sec. 132C (a) and (b), 86 Stat. 262, 263; section 428(e) repealed June 23, 1972, P.L. 92–318, sec. 132D(c), 86 Stat. 264; amended April 18, 1974, P.L. 93–269, 88 Stat. 87.

CERTIFICATE OF FEDERAL LOAN INSURANCE—EFFECTIVE DATE OF INSURANCE

Sec. 429. (a)(1) If, upon application by an eligible lender, made upon such form, containing such information, and supported by such evidence as the Commissioner may require, and otherwise in conformity with this section, the Commissioner finds that the applicant has made a loan to an eligible student which is insurable under the provisions of this part, he may issue to the applicant a certificate of insurance covering the loan and setting forth the amount and terms of the insurance.

(2) Insurance evidenced by a certificate of insurance pursuant to subsection (a)(1) shall become effective upon the date of issuance of the certificate, except that the Commissioner is authorized, in accordance with regulations, to issue commitments with respect to proposed loans, or with respect to lines (or proposed lines) of credit, submitted by eligible lenders, and in that event, upon compliance with subsection (a)(1) by the lender, the certificate of insurance may be issued effective as of the date when any loan, or any payment by the lender pursuant to a line of credit, to be covered by such insurance was made. Such insurance shall cease to be effective upon sixty days' default by the lender in the payment of any installment of the premiums payable pursuant to subsection (c).

(3) An application submitted pursuant to subsection (a)(1) shall contain (A) an agreement by the applicant to pay, in accordance with regulations, the premiums fixed by the Commissioner pursuant to subsection (c), and (B) an agreement by the applicant that if the loan is covered by insurance the applicant will submit such supplementary reports and statements during the effective period of the loan agreement, upon such forms, at such times, and containing such information as the Commissioner may prescribe by or pursuant to regulation.

(b)(1) In lieu of requiring a separate insurance application and issuing a separate certificate of insurance for each student loan made by an eligible lender as provided in subsection (a), the Commissioner may, in accordance with regulations consistent with section 424, issue to any eligible lender applying therefor a certificate of comprehensive insurance coverage which shall, without further action by the Commissioner, insure all insurable loans made by that lender, on or after the date of the certificate and before a specified cutoff date, within the limits of an aggregate maximum amount stated in the certificate. Such regulations may provide for conditioning such insurance, with respect to any loan, upon compliance by the lender with such requirements (to be stated or incorporated by reference in the certificate) as in the Commissioner's judgment will best achieve the purpose of this subsection while protecting the financial interest of the United States and promoting the objectives of this part, including (but not limited to) provisions as to the reporting of such loans and information relevant thereto to the Commissioner and as to the payment of initial and other premiums and the effect of default therein, and including provision for confirmation by the Commissioner from time to time (through endorsement of the certificate) of the coverage of specific new loans by such certificate, which confirmation shall be incontestable by the Commissioner in the absence of fraud or misrepresentation of fact or patent error.

(2) If the holder of a certificate of comprehensive insurance coverage issued under this subsection grants to a student a line of credit extending beyond the cutoff date specified in that certificate, loans or payments thereon made by the holder after that date pursuant to the line of credit shall not be deemed to be included in the coverage of that certificate except as may be specifically provided therein; but, subject to the limitations of section 424, the Commissioner may, in accordance with regulations, make commitments to insure such future loans or payments, and such commitments may be honored either as provided in subsection (a) or by inclusion of such insurance in comprehensive coverage under this subsection for the period or periods in which such future loans or payments are made.

(c) The Commissioner shall, pursuant to regulations, charge for insurance on each loan under this part a premium in an amount not to exceed one-fourth of 1 per centum per year of the unpaid principal amount of such loan (excluding interest added to principal), payable in advance, at such times and in such manner as may be prescribed by the Commissioner. Such regulations may provide that such premium shall not be payable, or if paid shall be refundable, with respect to any period after default in the payment of principal or interest or after the borrower has died or becomes totally and permanently disabled, if (1) notice of such default or other event has been duly given, and (2) requests for payment of the loss insured against has been made or the Commissioner has made such payment on his own motion pursuant to section 430(a).

(d) The rights of an eligible lender arising under insurance evidenced by a certificate of insurance issued to it under this section may be assigned as security by such lender only to another eligible lender, and subject to regulation by the Commissioner.

(e) The consolidation of the obligations of two or more federally-insured loans obtained by a student borrower in any fiscal year into a single obligation evidenced by a single instrument of indebtedness shall not affect the insurance by the United States. If the loans thus consolidated are covered by separate certificates of insurance issued under subsection (a), the Commissioner may upon surrender of the original certificates issue a new certificate of insurance in accordance with that subsection upon the consolidated obligation; if they are covered by a single comprehensive certificate issued under subsection (b), the Commissioner may amend that certificate accordingly.

(20 U.S.C. 1079) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 429, 79 Stat. 1243.

DEFAULT OF STUDENT UNDER FEDERAL LOAN INSURANCE PROGRAM

SEC. 430. (a) Upon default by the student borrower on any loan covered by Federal loan insurance pursuant to this part, and prior to the commencement of suit or other enforcement proceedings upon security for that loan, the insurance beneficiary shall promptly notify the Commissioner, and the Commissioner shall if requested (at that time or after further collection efforts) by the beneficiary, or may on his own motion, if the insurance is still in effect, pay to the beneficiary the amount of the loss sustained by the insured upon that loan as soon as that amount has been determined. The "amount of the loss" on any loan shall, for the purposes of this subsection and subsection (b), be deemed to be an amount equal to the unpaid balance of the principal amount and interest.

(b) Upon payment by the Commissioner of the amount of the loss pursuant to subsection (a), the United States shall be subrogated for all of the rights of the holder of the obligation upon the insured loan and shall be entitled to an assignment of the note or other evidence of the insured loan by the insurance beneficiary. If the net recovery made by the Commissioner on a loan after deduction of the cost of that recovery (including reasonable administrative costs) exceeds the amount of the loss, the excess shall be paid over to the insured.

(c) Nothing in this section or in this part shall be construed to preclude any forbearance for the benefit of the student borrower which may be agreed upon by the parties to the insured loan and approved by the Commissioner, or to preclude forbearance by the Commissioner in the enforcement of the insured obligation after payment on that insurance.

(d) Nothing in this section or in this part shall be construed to excuse the holder of a federally insured loan from exercising reasonable care and diligence in the making and collection of loans under the provisions of this part. If the Commissioner, after reasonable notice and opportunity for hearing to an eligible lender, finds that it has substantially failed to exercise such care and diligence or to make the reports and statements required under section 428(a)(3) and section 429(a)(3), or to pay the required Federal loan insurance premiums, he shall disqualify that lender for further Federal insurance on loans granted pursuant to this part until he is satisfied that its failure has ceased and finds that there is reasonable assurance that the lender will in the future exercise necessary care and diligence or comply with such requirements, as the case may be.

(e) As used in this section—

(1) the term "insurance beneficiary" means the insured or its authorized assignee in accordance with section 429(d); and

(2) the term "default" includes only such defaults as have existed for (A) one hundred and twenty days in the case of a loan which is repayable in monthly installments, or (B) one hundred and eighty days in the case of a loan which is repayable in less frequent installments.

(20 U.S.C. 1080) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 430, 79 Stat. 1244; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 113, 82 Stat. 1021; amended June 23, 1972, P.L. 92–318, sec. 132(B)(c), 86 Stat. 262.

INSURANCE FUND

Sec. 431. (a) There is hereby established a student loan insurance fund (hereinafter in this section called the "fund") which shall be available without fiscal year limitation to the Commissioner for making payments in connection with the default of loans insured by him under this part, or in connection with payments under a guaranty agreement under section 428(c). All amounts received by the Commissioner as premium charges for insurance and as receipts, earnings, or proceeds derived from any claim or other assets acquired by the Commissioner in connection with his operations under this part, and any other moneys, property, or assets derived by the Commissioner from his operations in connection with this section, shall be deposited in the fund. All payments in connection with the default of loans insured by the Commissioner under this part, or in connection with such guaranty agreements shall be paid from the fund. Monies in the fund not needed for current operations under this section may be invested in bonds or other obligations guaranteed as to principal and interest by the United States.

(b) If at any time the moneys in the fund are insufficient to make payments in connection with the default of any loan insured by the Commissioner under this part, or in connection with any guaranty agreement made under section 428(c), the Commissioner is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Commissioner with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. Sums borrowed under this subsection shall be deposited in the fund and redemption of such notes and obligations shall be made by the Commissioner from such fund.

(20 U.S.C. 1081) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 431, 79 Stat. 1245; amended Aug. 3, 1968, P.L. 90–460, sec. 3, 82 Stat. 638.

LEGAL POWERS AND RESPONSIBILITIES

SEC. 432. (a) In the performance of, and with respect to, the functions, powers, and duties vested in him by this part, the Commissioner may—

(1) prescribe such regulations as may be necessary to carry out the purposes of this part;

(2) sue and be sued in any court of record of a State having general jurisdiction or in any district court of the United States, and such district courts shall have jurisdiction of civil actions arising under this part without regard to the amount in controversy, and action instituted under this subsection by or against the Commissioner shall survive notwithstanding any change in the person occupying the office of Commissioner or any vacancy in that office; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Commissioner or property under his conrtol, and nothing herein shall be construed to except litigation arising out of activities under this

part from the application of sections 507(b) and 2679 of title 28 of the United States Code and of section 316 of Title 5.[1]

(3) include in any contract for Federal loan insurance such terms, conditions, and covenants relating to repayment of principal and payment of interest, relating to his oblgations and rights and to those of eligible lenders, and borrowers in case of default, and relating to such other matters as the Commissioner determines to be necessary to assure that the purposes of this part will be achieved; and any term, condition, and covenant made pursuant to this clause or any other provisions of this part may be modified by the Commissioner if he determines that modification is necessary to protect the financial interest of the United States;

(4) subject to the specific limitations in this part, consent to the modification, with respect to rate of interest, time of payment of any installment of principal and interest or any portion thereof, or any other provision of any note or other instrument evidencing a loan which has been insured by him under this part:

(5) enforce, pay, or compromise, any claim on, or arising because of, any such insurance or any guarantee agreement under section 428(c); and

(6) enforce, pay, compromise, waive, or release any right, title, claim, lien, or demand, however acquired, including any equity or any right or redemption.

(b) The Commissioner shall, with respect to the financial operations arising by reason of this part—

(1) prepare annually and submit a budget program as provided for wholly owned Government corporations by the Government Corporation Control Act; and

(2) maintain with respect to insurance under this part an integral set of accounts, which shall be audited annually by the General Accounting Office in accordance with principles and procedures applicable to commercial corporate transactions, as provided by section 105 of the Government Corporation Control Act, except that the transactions of the Commissioner, including the settlement of insurance claims and of claims for payments pursuant to section 428, and transactions related thereto and vouchers approved by the Commissioner in connection with such transactions, shall be final and conclusive upon all accounting and other officers of the Government.

(20 U.S.C. 1082) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 432, 79 Stat. 1246; amended Aug. 3, 1968, P.L. 90–460 sec. 3, 82 Stat. 638.

DIRECT LOANS

SEC. 433. (a) The Commissioner may make a direct loan to any student who would be eligible for an insured loan for study at a vocational school under this part if (1) in the particular area in which the student resides loans which are insurable under this Act are not available at the rate of interest prescribed by the Secretary pursuant to section 427(a)(2)(D) for such area, or (2) the particular student has been unable to obtain an insured loan at a rate of interest which does not exceed such rate prescribed by the Secretary.

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[1] **28 U.S.C. 507(G) repealed and replaced by 28 U.S.C. 509 and 547. 5 U.S.C. 316 repealed and replaced by 28 U.S.C. 517. Sept. 6, 1966, P.L. 89–554, sec. 8a, 80 Stat. 633.**

(b) Loans made under this section shall bear interest at the rate prescribed by the Secretary under section 427 (a) (2) (D) for the area where the student resides, and shall be made on such other terms and conditions as the Commissioner shall prescribe, which shall conform as nearly as practicable to the terms and conditions of loans insured under this Act.

(c) There is authorized to be appropriated the sum of $1,000,000 for the fiscal year ending June 30, 1969 and for each of the succeeding fiscal years ending prior to July 1, 1975, to carry out this section.

(20 U.S.C. 1083) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 433, 79 Stat. 1247; amended Oct. 16, 1968 P.L. 90–575 Title I, sec. 116, 82 Stat. 1024; amended June 23, 1972; P.L. 92–318; sec. 132(c), 86 Stat. 261.

PARTICIPATION BY FEDERAL CREDIT UNIONS IN FEDERAL, STATE, AND PRIVATE STUDENT LOAN INSURANCE PROGRAMS

SEC. 434. Notwithstanding any other provision of law, Federal credit unions shall, pursuant to regulations of the Director of the Bureau of Federal Credit Unions, have power to make insured loans to student members in accordance with the provisions of this part relating to federally insured loans, or in accordance with the provisions of any State or nonprofit private student loan insurance program which meets the requirements of section 428(a) (1) (C).

(20 U.S.C. 1084) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 434, 79 Stat. 1247; amended Oct. 16, 1969, P.L. 90–575, Title I, sec. 116, 82 Stat. 1024; amended June 23, 1972, PL. 92–318, sec. 132 D(e) 86 Stat. 264.

DEFINITIONS FOR REDUCED-INTEREST STUDENT LOAN INSURANCE PROGRAM

SEC. 435. As used in this part:

(a) The term "eligible institution" means (1) an institution of higher education, (2) a vocational school, or (3) with respect to students who are nationals of the United States, an institution outside the States which is comparable to an institution of higher education or to a vocational school and which has been approved by the Commissioner for purposes of this part.

(b) The term "institution of higher education" means an educational institution in any State which (1) admits as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such certificate, (2) is legally authorized within such State to provide a program of education beyond secondary education, (3) provides an educational program for which it awards a bachelor's degree or provides not less than a two-year program which is acceptable for full credit toward such a degree, (4) is a public or other nonprofit institution, and (5) is accredited by a nationally recognized accrediting agency or association approved by the Commissioner for this purpose or, if not so accredited, (A) is an institution with respect to which the Commissioner has determined that there is satisfactory assurance, considering the resources available to the institution, the period of time, if any, during which it has operated, the effort it is making to meet accreditation standards, and the purpose for which this determination is being made, that the institution will meet the accreditation standards of such an agency or association within a reasonable time, or (B) is an institution whose credits are accepted on transfer by not less than three institutions which are so accredited, for credit on the same basis as if transferred from an institution so accredited. Such term includes any public or other nonprofit collegiate or associate degree school of nursing and any school which provides not less than a one-year program of training to prepare students for gainful employment in a recognized occupation and which meets the provisions of clauses (1), (2), (4), and (5). If the Commissioner determines that a particular category of such schools does not meet the requirements of clause (5) because there is no nationally recognized accrediting agency or association qualified to accredit schools in such category, he shall, pending the establishment of such an accrediting agency or association, appoint an advisory committee, composed of persons specially qualified to evaluate training provided by schools in such category, which shall (i) prescribe the standards of content, scope, and quality which must be met in order to qualify schools in such category to participate in the program pursuant to this part, and (ii) determine whether particular schools not meeting the requirements of clause (5) meet those standards. For purposes of this subsection, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations which he determines to be reliable authority as to the quality of training offered.

(c) The term "vocational school" means a business or trade school, or technical institution or other technical or vocational school, in any State, which (1) admits as regular students only persons who have completed or left elementary or secondary school and who have the ability to benefit from the training offered by such institution; (2) is legally authorized to provide, and provides within that State, a program of postsecondary vocational or technical education designed to fit individuals for useful employment in recognized occupations; (3) has been in existence for two years or has been specially accredited by the Commissioner as an institution meeting the other requirements of this subsection; and (4) is accredited (A) by a nationally recognized accrediting agency or association listed by the Commissioner pursuant to this clause, (B) if the Commissioner determines that there is no nationally recognized accrediting agency or association qualified to accredit schools of a particular category, by a State agency listed by the Commissioner pursuant to this clause and (C) if the Commissioner determines there is no nationally recognized or State agency or association qualified to accredit schools of a particular category, by an advisory committee appointed by him and composed of persons specially qualified to evaluate training provided by schools of that category, which committee shall prescribe the standards of content, scope, and quality which must be met by those schools in order for loans to students attending them to be insurable under this part and shall also determine whether particular schools meet those standards. For the purpose of this subsection, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations and State agencies which he determines to be reliable authority as to the quality of education or training afforded.

(d) The term "collegiate school of nursing" means a department, division, or other administrative unit in a college or university which provides primarily or exclusively an accredited program of education in professional nursing and allied subjects leading to the degree of bachelor of arts, bachelor of science, bachelor of nursing, or to an equivalent degree, or to a graduate degree in nursing.

(e) The term "associate degree school of nursing" means a department, division, or other administrative unit in a junior college, community college, college, or university which provides primarily or exclusively an accredited two-year program of education in professional nursing and allied subjects leading to an associate degree in nursing or to an equivalent degree.

(f) The term "accredited" when applied to any program of nurse education means a program accredited by a recognized body or bodies approved for such purpose by the Commissioner of Education.

(g) The term "eligible lender" means an eligible institution, an agency or instrumentality of a State, or a financial or credit institution (including an insurance company) which is subject to examination and supervision by an agency of the United States or of any State, or a pension fund approved by the Commissioner for this purpose.

(h) The term "line of credit" means an arrangement or agreement between the lender and the borrower whereby a loan is paid out by the lender to the borrower in annual installments, or whereby the lender agrees to make, in addition to the initial loan, additional loans in subsequent years.

(20 U.S.C. 1085) Enacted Nov. 8, 1965, P.L. 89–329, Title IV, sec. 435, 79 Stat. 1247; as amended Oct. 29, 1966, P.L. 89–698, Title II, sec. 204, 80 Stat. 1072; amended Oct. 16, 1968, P.L. 90–575, Title I, secs. 116, 118, 82 Stat. 1023–26.

DISTRICT OF COLUMBIA STUDENT LOAN INSURANCE PROGRAM

SEC. 436. (a) The Board of Commissioners of the District of Columbia is authorized (1) to establish a student loan insurance program which meets the requirements of this part for a State loan insurance program in order to enter into agreements with the Commissioner for the purposes of this title and such Act, (2) to enter into such agreements with the Commissioner, (3) to use amounts appropriated to such Board for the purposes of this section to establish a fund for such purposes and for expenses in connection therewith, and (4) to accept and use donations for the purposes of this section.

(b) Notwithstanding the provisions of any applicable law, if the borrower, on any loan insured under the program established pursuant to this section, is a minor, any otherwise valid note or other written agreement executed by him for the purposes of such loan shall create a binding obligation.

(c) There are authorized to be appropriated to such Board such amounts as may be necessary for the purposes of this section.

(20 U.S.C. 1086) Enacted Nov. 3, 1966, P.L. 89–752, sec. 12, 80 Stat. 1244; amended Oct. 16, 1968, P.L. 90–575, Title I, sec. 116, 82 Stat. 1024.

REPAYMENT BY THE COMMISSIONER OF LOANS OF DECEASED OR DISABLED BORROWERS

SEC. 437. If a student borrower who has received a loan described in clause (A), (B), or (C) of section 428(a)(1) dies or becomes permanently and totally disabled (as determined in accordance with regulations of the Commissioner), then the Commissioner shall discharge the borrower's liability on the loan by repaying the amount owed on the loan.

(20 U.S.C. 1087) Enacted Oct. 16, 1968, P.L. 90-575, Title I, sec. 113, 82 Stat. 1020; amended June 23, 1972, P.L. 92-318, sec. 132D, 86 Stat. 263.

ELIGIBILITY OF INSTITUTIONS[1]

SEC. 438. (a) Notwithstanding any other provision of this part, the Commissioner is authorized to prescribe such regulations as may be necessary to provide for—

(1) a fiscal audit of an eligible institution with regard to any funds obtained from a student who has received a loan insured under this part, or insured by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b);

(2) the establishment of reasonable standards of financial responsibility and appropriate institutional capability for the administration by an eligible institution of a program of student financial aid with respect to funds obtained from a student who has received a loan insured under this part, or insured by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b);

(3) the limitation, suspension, or termination of the eligibility under this part of any otherwise eligible institution, whenever the Commissioner has determined, after notice and affording an opportunity for hearing, that such institution has violated or failed to carry out any regulation prescribed under this part.

(b) The Commissioner shall publish a list of State agencies which he determines to be reliable authority as to the quality of public postsecondary vocational education in their respective States for the purpose of determining eligibility for all Federal student assistance programs.

(20 U.S.C. 1087-1) Enacted June 23, 1972, P.L. 92-318, sec. 132E(a), 86 Stat. 264.

STUDENT LOAN MARKETING ASSOCIATION

SEC. 439. (a) The Congress hereby declares that it is the purpose of this section to establish a Government-sponsored private corporation which will be financed by private capital and which will serve as a secondary market and warehousing facility for insured student loans, insured by the Commissioner under this part or by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b), and which will provide liquidity for student loan investments.

(b)(1) There is hereby created a body corporate to be known as the Student Loan Marketing Association (hereinafter referred to as the "Association"). The Association shall have succession until dissolved. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident thereof. Offices may be established by the Association in such other place or places as it may deem necessary or appropriate for the conduct of its business.

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[1] This section is effective on and after August 23, 1972.

(2) The Association, including its franchise, capital, reserves, surplus, mortgages, or other security holdings, and income shall be exempt from all taxation now or hereafter imposed by any State, territory, possession, Commonwealth, or dependency of the United States, or by the District of Columbia, or by any county, municipality, or local taxing authority, except that any real property of the Association shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real propery is taxed.

(3) There is hereby authorized to be appropriated to the Secretary of Health, Education, and Welfare $5,000,000 for making advances for the purpose of helping to establish the Association. Such advances shall be repaid within such period as the Secretary may deem to be appropriate in light of the maturity and solvency of the Association. Such advances shall bear interest at a rate not less than (A) a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the maturity of such advances, adjusted to the nearest one-eighth of 1 per centum, plus (B) an allowance adequate in the judgment of the Secretary to cover administrative costs and probable losses. Repayments of such advances shall be deposited into miscellaneous receipts of the Treasury.

(c) (1) The Association shall have a Board of Directors which shall consist of twenty-one persons, one of whom shall be designated Chairman by the President.

(2) An interim Board of Directors shall be appointed by the President, one of whom he shall designate as interim Chairman. The interim Board shall consist of twenty-one members, seven of whom shall be representative of banks or other financial institutions which are insured lenders pursuant to this section, seven of whom shall be representative of educational institutions, and seven of whom shall be representative of the general public. The interim Board shall arrange for an initial offering of common and preferred stocks and take whatever other actions are necessary to proceed with the operations of the Association.

(3) When in the judgment of the President, sufficient common stock of the Association has been purchased by educational institutions and banks or other financial institutions, the holders of common stock which are educational institutions shall elect seven members of the Board of Directors and the holders of common stock which are banks or other financial institutions shall elect seven members of the Board of Directors. The President shall appoint the remaining seven directors, who shall be representative of the general public.

(4) At the time the events described in paragraph (3) have occurred, the interim Board shall turn over the affairs of the Association to the regular Board so chosen or appointed.

(5) The directors appointed by the President shall serve at the pleasure of the President and until their successors have been appointed and have qualified. The remaining directors shall each be elected for a term ending on the date of the next annual meeting of the common

stockholders of the Association, and shall serve until their successors have been elected and have qualified. Any appointive seat on the Board which becomes vacant shall be filled by appointment of the President. Any elective seat on the Board which becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

(6) The Board of Directors shall meet at the call of its Chairman, but at least semiannually. The Board shall determine the general policies which shall govern the operations of the Association. The Chairman of the Board shall, with the approval of the Board, select, appoint, and compensate qualified persons to fill the offices as may be provided for in the bylaws, with such executive functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such persons shall be the executive officers of the Association and shall discharge all such executive functions, powers, and duties.

(d)(1) The Association is authorized, subject to the provisions of this section, pursuant to commitments or otherwise, to make advances on the security of, purchase, service, sell, or otherwise deal in, at prices and on terms and conditions determined by the Association, student loans which are insured by the Commissioner under this part or by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b).

(2) Any warehousing advance made under paragraph (1) of this subsection shall not exceed 80 per centum of the face amount of an insured loan. The proceeds from any such advance shall be invested in additional insured student loans.

(e) The Association, pursuant to such criteria as the Board of Directors may prescribe, shall make advances on security or purchase student loans pursuant to subsection (d) only after the Association is assured that the lender (A) does not discriminate by pattern or practice against any particular class or category of students by requiring that, as a condition to the receipt of a loan, the student or his family maintain a business relationship with the lender, except that this clause shall not apply in the case of a loan made by a credit union, savings and loan association, mutual savings bank, institution of higher education or any other lender with less than $50,000,000 in deposits, and (B) does not discriminate on the basis of race, sex, color, creed, or national origin.

(f)(1) The Association shall have common stock having a par value of $100 per share which may be issued only to lenders under this part, pertaining to guaranteed student loans, who are qualified as insured lenders under this part or who are eligible institutions as defined in section 435(a) (other than an institution outside the United States).

(2) Each share of common stock shall be entitled to one vote with rights of cumulative voting at all elections of directors. Voting shall be by classes as described in subsection (c)(3).

(3) The common stock of the Association shall be transferable only as may be prescribed by regulations of the Secretary of Health, Education, and Welfare, and, as to the Association, only on the books of the Association. The Secretary of Health, Education, and Welfare shall prescribe the maximum number of shares of common stock the Association may issue and have outstanding at any one time.

(4) To the extent that net income is earned and realized, subject to subsection (g)(2), dividends may be declared on common stock by

the Board of Directors. Such dividends as may be declared by the Board shall be paid to the holders of outstanding shares of common stock, except that no such dividends shall be payable with respect to any share which has been called for redemption past the effective date of such call.

(g)(1) The Association is authorized, with the approval of the Secretary of Health, Education, and Welfare, to issue nonvoting preferred stock with a par value of $100 per share. Any preferred share issued shall be freely transferable, except that, as to the Association, it shall be transferred only on the books of the Association.

(2) The holders of the preferred shares shall be entitled to such rate of cumulative dividends and such shares shall be subject to such redemption or other conversion provisions, as may be provided for at the time of issuance. No dividends shall be payable on any share of common stock at any time when any dividend is due on any share of preferred stock and has not been paid.

(3) In the event of any liquidation, dissolution, or winding up of the Association's business, the holders of the preferred shares shall be paid in full at par value thereof, plus all accrued dividends, before the holders of the common shares receive any payment.

(h)(1) The Association is authorized with the approval of the Secretary of Health, Education, and Welfare and the Secretary of the Treasury to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Association. Such obligations may be redeemable at the option of the Association before maturity in such manner as may be stipulated therein.

(2) The Secretary of Health, Education, and Welfare is authorized, prior to July 1, 1982, to guarantee payment when due of principal and interest on obligations issued by the Association in an aggregate amount determined by the Secretary in consultation with the Secretary of the Treasury.

(3) To enable the Secretary of Health, Education, and Welfare to discharge his responsibilities under guarantees issued by him, he is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Secretary of Health, Education, and Welfare with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the months preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United

States. There is authorized to be appropriated to the Secretary of Health, Education, and Welfare such sums as may be necessary to pay the principal and interest on the notes or obligations issued by him to the Secretary of the Treasury.

(i) The Association shall have power—

(1) to sue and be sued, complain and defend, in its corporate name and through its own counsel;

(2) to adopt, alter, and use the corporate seal, which shall be judicially noticed;

(3) to adopt, amend, and repeal by its Board of Directors, bylaws, rules, and regulations as may be necessary for the conduct of its business;

(4) to conduct its business, carry on its operations, and have officers and exercise the power granted by this section in any State without regard to any qualification or similar statute in any State;

(5) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, or mixed, or any interest therein, wherever situated;

(6) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Association;

(7) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(8) to appoint such officers, attorneys, employees, and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bonds for them and fix the penalty thereof; and

(9) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

(j) The accounts of the Association shall be audited annually. Such audits shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States, except that independent public accountants licensed to practice by such regulatory authority after December 31, 1970, and persons who, although not so certified or licensed, meet, in the opinion of the Secretary, standards of education and experience representative of the highest standards prescribed by the licensing authorities of the several States which provide for the continuing licensing of public accountants and which are prescribed by the Secretary in appropriate regulations may perform such audits until December 31, 1975. A report of each such audit shall be furnished to the Secretary of the Treasury. The audit shall be conducted at the place or places where the accounts are normally kept. The representatives of the Secretary shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Association and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositaries, fiscal agents, and custodians.

(k) A report of each such audit for a fiscal year shall be made by the Secretary of the Treasury to the President and to the Congress not later than six months following the close of such fiscal year. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep the President and the Congress informed of the operations and financial condition of the Association, together with such recommendations with respect thereto as the Secretary may deem advisable, including a report of any impairment of capital or lack of sufficient capital noted in the audit. A copy of each report shall be furnished to the Secretary of Health, Education, and Welfare and to the Association.

(l) All obligations issued by the Association shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under authority or control of the United States or of any officer or officers thereof. All stock and obligations issued by the Association pursuant to this section shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States. The Association shall, for the purposes of section 14(b)(2) of the Federal Reserve Act, be deemed to be an agency of the United States.

(m) In order to furnish obligations for delivery by the Association, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Board of Directors may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Association. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Association shall reimburse the Secretary of the Treasury for any expenditures made in the preparation, custody, and delivery of such obligations.

(n) The Association shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress a report of its operations and activities during each year.

(20 U.S.C. 1087-2) **Enacted June 23, 1972, P.L. 92-318, sec. 133(a), 86 Stat. 265, 269.**

Emergency Insured Student Loan Act of 1969

INCENTIVE PAYMENTS ON INSURED STUDENT LOANS

SEC. 2. (a)(1) Whenever the Secretary of Health, Education, and Welfare determines that the limitations on interest or other conditions (or both) applicable under part B of title IV of the Higher Education Act of 1965 (Public Law 89-329) to student loans eligible for insurance by the Commissioner of Education or under a State or nonprofit private insurance program covered by an agreement under section 428(b) of such Act, considered in the light of the then current economic conditions and in particular the relevant money market, are impeding or threatening to impede the carrying out of the purposes of such part B and have caused the return to holders of such loans to be less than equitable, he is hereby authorized, by regulation applicable to a three-month period specified therein, to prescribe (after consultation with the Secretary of the Treasury and the heads of other appropriate agencies) a special allowance to be paid by the Commissioner of Education to each holder of an eligible loan or loans. The amount of such allowance to any holder with respect to such period shall be a percentage, specified in such regulation, of the average unpaid balance of disbursed principal (not including interest added to principal) of all eligible loans held by such holder during such period, which balance shall be computed in a manner specified in such regulation; but no such percentage shall be set at a rate in excess of 3 per centum per annum.

(2) A determination pursuant to paragraph (1) may be made by the Secretary of Health, Education, and Welfare, on a national, regional, or other appropriate basis and the regulations based thereon may, accordingly, set differing allowance rates for different regions or other areas or classifications of lenders, within the limit of the maximum rate set forth in paragraph (1).

(3) For each three-month period with respect to which the Secretary of Health, Education, and Welfare prescribes a special allowance, the determination required by paragraph (1) shall be made, and the percentage rate applicable thereto shall be set, by promulgation of a new regulation or by amendment to a regulation applicable to a prior period or periods.

(4) The special allowance established for any such three-month period shall be payable at such time, after the close of such period, as may be specified by or pursuant to regulations promulgated under this Act. The holder of a loan with respect to which any such allowance is to be paid shall be deemed to have a contractual right, as against the United States, to receive such allowance from the Commissioner.

(5) Each regulation or amendment, prescribed under this Act, which establishes a special allowance with respect to a three-month period specified in the regulation or amendment shall, notwithstanding section 505 of the Higher Education Amendments of 1968, apply to the three-month period immediately preceding the period in which such regulation or amendment is published in the Federal Register, except that the first such regulation may be made effective as of August 1, 1969, and notwithstanding other provisions of this section requiring a three-month period, may be made effective for a period of less than three months.

(6)(A) The Secretary of Health, Education, and Welfare shall determine, with respect to the student insured loan program as authorized under part B of title IV of the Higher Education Act of 1965 and this Act, whether there are any practices of lending institutions which may result in discrimination against particular classes or categories of students, including the requirement that as a condition to the receipt of a loan the student or his family maintain a business relationship with the lender, the consequences of such requirement, and the practice of refusing to make loans to students for their freshman year of study, and also including any discrimination on the basis of sex, color, creed, or national origin. The Secretary shall make a report with respect to such determination, and his recommendations, to the Congress on or before March 1, 1970.

(B) If, after making such determination, the Secretary finds that, in any area, a substantial number of eligible students are denied a fair opportunity to obtain an insured student loan because of practices of lending institutions in the area which limit student participation, (i) he shall take such steps as may be appropriate, after consultation with the appropriate State guarantee agencies and the Advisory Council on Financial Aid to Students, relating to such practices and to encourage the development in such area of a plan to increase the availability of financial assistance opportunities for such students, and (ii) he shall, within sixty days after making such determination, adopt or amend appropriate regulations pertaining to the student insured loan program to prevent, where practicable, and practices which he finds have denied loans to a substantial number of students.

(7) As used in this Act, the term "eligible loan" means a loan made on or after August 1, 1969, and prior to July 1, 1975 which is insured under title IV–B of the Higher Education Act of 1965, or made under a program covered by an agreement under section 428(b) of such Act.

(b) The Commissioner of Education shall pay the holder of an eligible loan, at such time or times as are specified in regulations, a special allowance prescribed pursuant to subsection (a), subject to the condition that such holder shall submit to the Commissioner, at such time or times and in such manner as he may deem proper, such information as may be required by regulation for the purpose of enabling the Secretary of Health, Education, and Welfare and the Commissioner to carry out their functions under this Act and to carry out the purposes of this Act.

(c)(1) There are hereby authorized to be appropriated for special allowances as authorized by this section not to exceed $20,000,000 for the fiscal year ending June 30, 1970, $40,000,000 for the fiscal year ending June 30, 1971, and for succeeding fiscal years such sums as may be necessary.

(2) Sums available for expenditure pursuant to appropriations made for the fiscal year ending June 30, 1969, under section 421(b) (other than clause (1) thereof) of the Higher Education Act of 1965 shall be available for payment of special allowances under this Act. The authorization in paragraph (1) shall be reduced by the amount made available pursuant to this paragraph.

Enacted October 22, 1969, P.L. 91–95, 83 Stat. 141; amended April 18, 1974, P.L. 93–269; 88 Stat. 87.

HIGHER EDUCATION ACT, TITLE IV

Part E—Direct Loans to Students in Institutions of Higher Education[1]

APPROPRIATIONS AUTHORIZED

Sec. 461. (a) The Commissioner shall carry out a program of stimulating and assisting in the establishment and maintenance of funds at institutions of higher education for the making of low-interest loans to students in need thereof to pursue their courses of study in such institutions.

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[1] Part E continues the authority formerly contained in Title II of the NDEA. For the language of that authority, see p. 245.

(b) (1) For the purpose of enabling the Commissioner to make contributions to student loan funds established under this part, there are hereby authorized to be appropriated $375,000,000 for the fiscal year ending June 30, 1972, and $400,000,000 for the fiscal year ending June 30, 1973, and for each of the succeeding fiscal years ending prior to July 1, 1975.

(2) In addition there are hereby authorized to be appropriated such sums for the fiscal year ending June 30, 1976, and each of the three succeeding fiscal years as may be necessary to enable students who have received loans for academic years ending prior to July 1, 1975, to continue or complete courses of study.

(c) Any sums appropriated pursuant to subsection (b) for any fiscal year shall be available for apportionment pursuant to section 462 and for payments of Federal capital contributions therefrom to institutions of higher education which have agreements with the Commissioner under section 463. Such Federal capital contributions and all contributions from such institutions shall be used for the establishment, expansion, and maintenance of student loan funds.

(20 U.S.C. 1087aa) Enacted June 23, 1972, P.L. 92–318, sec. 137 (b), 86 Stat. 273.

(NOTE: Secs. 137 (c) and (d) of P.L. 92–318 provide as follows:)

(c) In the case of a loan made before July 1, 1972, under title II of the National Defense Education Act of 1958 not to exceed 50 per centum of such loan (1) shall be canceled for service by the borrower as a full-time teacher in a public or other nonprofit elementary or secondary school in a State, in an institution of higher education, or in an elementary or secondary school overseas of the Armed Forces of the United States at the rate of 10 per centum of the total amount of such loan for each complete academic year of such service, except that (A) such rate shall be 15 per centum for each complete academic year of service as a full-time teacher in a public or other nonprofit elementary or secondary school which is in the school district of a local educational agency which is eligible in such year for assistance pursuant to title I of the Elementary and Secondary Education Act of 1965, as amended, and which for purposes of this paragraph and for that year has been determined by the Commissioner (pursuant to regulations and after consultation with the State educational agency of the State in which the school is located to be a school in which there is a high concentration of students from low-income families, except that (unless all of the schools so determined are schools in which the enrollment of children described in clause (A), (B), or (C) of section 103(a)(2) of such title (using a low-income factor of $3,000) exceeds 50 percentum of the total enrollment of the school) the Commissioner shall not make such determination with respect to more than 25 per centum of the total of the public and other nonprofit elementary and secondary schools in any one State for any one year, (B) such rate shall be 15 per centum for each complete academic year of service as a full-time teacher of handicapped children (including mentally retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, or other health impaired children who by reason thereof require special education) in a public or other nonprofit elementary or secondary school system, and (C) for the purposes of any cancellation pursuant to clause (A) or (B), an additional 50 per centum of any such loan may be canceled, and (2) shall be canceled for service by the borrower after June 30, 1970, as a member of the Armed Forces of the United States at the rate of 12½ per centum of the total amount of such loan for each year of consecutive service, but only if such loan was made after April 13, 1970.

(d)(1) Upon enactment of this Act, the program authorized by part E of title IV of the Higher Education Act of 1965 as added by subsection (b) is, and shall be deemed to be, a continuation of the program authorized by title II

of the National Defense Education Act of 1958. In accordance with regulations of the Commissioner except as provided in subsection (c), all rights, privileges, duties, functions, and obligations under such title II prior to the enactment of this Act shall be deemed to be vested, as the Commissioner determines to be appropriate, under such part E. Any student loan fund established under an agreement under such title II shall, in accordance with regulations, be deemed to have been established under such part E; and any assets of such student loan fund of any institution shall be deemed to be the assets of a student loan fund established under an agreement of that institution with the Commissioner under such part E.

APPORTIONMENT OF APPROPRIATIONS

SEC. 462. (a)(1) From 90 per centum of the sums appropriated pursuant to section 461(b)(1) for any fiscal year, the Commissioner shall apportion to each State an amount which bears the same ratio to the amount so appropriated as the number of persons enrolled on a full-time basis in institutions of higher education, as determined by the Commissioner for the most recent year for which satisfactory data are available to him, in such State, bears to the total number of persons so enrolled in all the States. The remainder of the sums so appropriated shall be apportioned among the States by the Commissioner in accordance with equitable criteria which he shall establish and which shall be designed to achieve a distribution of the sums so appropriated among the States which will most effectively carry out the purpose of this part, except that where any State's apportionment under the first sentence for a fiscal year is less than its allotment under section 202(a) of the National Defense Education Act of 1958 for the fiscal year ending June 30, 1972, before he makes any other apportionments under this sentence, the Commissioner shall apportion sufficient additional sums to such State under this sentence to make the State's apportionment for that year under this paragraph equal to its allotment for the fiscal year ending June 30, 1972, under such section 202(a). Sums apportioned to a State under the preceding sentence shall be consolidated with, and become a part of, its apportionment from the same appropriation under the first sentence of this paragraph.

(2) Any sums appropriated pursuant to section 461(b)(2) for any fiscal year shall be apportioned among institutions of higher education in such a manner as the Commissioner determines will best accomplish the purpose for which they were appropriated.

(b)(1) Any institution of higher education desiring to receive payments of Federal capital contributions from the apportionment of the State in which it is located for any fiscal year shall make an agreement under section 463 and shall submit an application therefor to the Commissioner, in accordance with the provisions of this part. The Commissioner shall, from time to time, set dates before which such institutions must file applications under this section.

(2) The Commissioner shall pay to each applicant under this subsection which has an agreement with him under section 463, from the amount apportioned to the State in which it is located, the amount requested in such application. Such payment may be made in such installments as the Commissioner determines will not result in unnecessary accumulations of capital in the student loan fund of the applicant established under its agreement under section 463.

(c)(1)(A) If the total amount of Federal capital contributions requested in the applications from a State for any fiscal year exceeds the amount apportioned to that State, the request from each institution shall be reduced ratably.

(B) In case additional amounts become available for payments to student loan funds in a State in which requests have been ratably reduced under subparagraph (A), such requests shall be increased on the same basis as they were reduced, except that no request shall be increased above the request submitted under subsection (b)(1).

(2) If the amount of an apportionment to a State for any fiscal year exceeds the total amount of Federal capital contributions requested in applications from that State, such excess shall be available for reapportionment from time to time on such date or dates as the Commissioner shall fix. From the aggregate of such excess for any fiscal year, the Commissioner shall reapportion to each State in which requests were reduced under subparagraph (A) of paragraph (1) an amount which bears the same ratio to such aggregate as the total amount of such reduction in that State bears to the total amount of such reductions in all the States.

(d) The aggregate of the amounts of Federal capital contributions paid under this section for any fiscal year to proprietary institutions of higher education may not exceed the amount by which the sums appropriated pursuant to section 461(b)(1) for that fiscal year exceed $190,000,000.

(20 U.S.C. 1087bb) Enacted June 23, 1972, P.L. 92–318, sec. 137(b), 86 Stat. 273, 274.

AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION

SEC. 463. (a) An agreement with any institution of higher education for the payment of Federal capital contributions under this part shall—

(1) provide for the establishment and maintenance of a student loan fund for the purposes of this part;

(2) provide for the deposit in such fund of—

(A) the Federal capital contributions,

(B) a capital contribution by such institution in an amount equal to not less than one-ninth of the amount of such Federal contributions,

(C) collections of principal and interest on student loans made from such fund,

(D) charges collected pursuant to regulations under section 464(c)(1)(G), and

(E) any other earnings of the funds;

(3) provide that such student loan fund shall be used only for—

(A) loans to students, in accordance with the provisions of this part,

(B) administrative expenses, as provided in subsection (b),

(C) capital distributions, as provided in section 466, and

(D) costs of litigation, and other collection costs agreed to by the Commissioner in connection with the collection of a loan from the fund (and interest thereon) or a charge assessed pursuant to regulations under section 464(c)(1)(G);

(4) provide that where a note or written agreement evidencing a loan has been in default for at least 2 years despite due diligence on the part of the institution in making collection thereon, the institution may assign its rights under such note or agreement to the United States, without recompense, and that in that event any sums collected on such a loan shall be deposited in the general fund of the Treasury; and

(5) include such other provisions as may be necessary to protect the financial interest of the United States and promote the purposes of this part as are agreed to by the Commissioner and the institution.

(b) An institution which has entered into an agreement under subsection (a) shall be entitled, for each fiscal year during which it makes student loans from a student loan fund established under such agreement, to a payment in lieu of reimbursement for its expenses in administering its student loan program under this part during such year. Such payment shall be made in accordance with section 493.

(20 U.S.C. 1087cc) Enacted June 23, 1972, P.L. 92–318, sec. 137(b), 86 Stat. 274, 275.

TERMS OF LOANS

SEC. 464. (a)(1) Loans from any student loan fund established pursuant to an agreement under section 463 to any student by any institution shall, subject to such conditions, limitations, and requirements as the Commissioner shall prescribe by regulation, be made on such terms and conditions as the institution may determine.

(2) The aggregate of the loans for all years made by institutions of higher education from loan funds established pursuant to agreements under this part may not exceed—

(A) $10,000 in the case of any graduate or professional student (as defined by regulations of the Commissioner, and including any loans from such funds made to such person before he became a graduate or professional student);

(B) $5,000 in the case of a student who has successfully completed two years of a program of education leading to a bachelor's degree, but who has not completed the work necessary for such a degree (determined under regulations of the Commissioner, and including any loans from such funds made to such person before he became such a student); and

(C) $2,500 in the case of any other student.

(3) Regulations of the Commissioner under paragraph (1) shall be designed to prevent the impairment of the capital of student loan funds to the maximum extent practicable and with a view toward the objective of enabling the student to complete his course of study.

(b) A loan from a student loan fund assisted under this part may be made only to a student who—

(1) is in need of the amount of the loan to pursue a course of study at such institution;

(2) is capable, in the opinion of the institution, of maintaining good standing in such course of study;

(3) has been accepted for enrollment as an undergraduate, graduate, or professional student in such institution, or, in the case of a student already in attendance at such institution, is in good standing; and

(4) is carrying at least one-half the normal academic workload. as determined by the institution.

In any case in which a student has been determined to be eligible for a loan under the preceding sentence, and such student thereafter fails to maintain good standing, the eligibility of such student shall, upon notice to the Commissioner, be suspended, and further payments to, or on behalf of, such student shall not be made until such student regains good standing.

(c)(1) Any agreement between an institution and a student for a loan from a student loan fund assisted under this part—

(A) shall be evidenced by note or other written instrument which, except as provided in paragraph (2), provides for repayment of the principal amount of the loan, together with interest thereon, in equal installments (or, if the borrower so requests, in graduated periodic installments determined in accordance with such schedules as may be approved by the Commissioner) payable quarterly, bimonthly, or monthly, at the option of the institution, over a period beginning nine months after the date on which the student ceases to carry, at an institution of higher education or a comparable institution outside the United States approved for this purpose by the Commissioner, at least one-half the normal full-time academic workload, and ending ten years and nine months after such date;

(B) shall include provision for acceleration of repayment of the whole, or any part, of such loan, at the option of the borrower;

(C) may provide, at the option of the institution in accordance with regulations of the Commissioner, that during the repayment period of the loan, payments of principal and interest by the borrower with respect to all outstanding loans made to him from student loan funds assisted under this part shall be at a rate equal to not less than $30 per month;

(D) shall provide that the loan shall bear interest, on the unpaid balance of the loan, at the rate of 3 per centum per annum, except that no interest shall accrue (i) prior to the beginning date of repayment determined under clause (A) (i) or (ii) during any period in which repayment is suspended by reason of paragraph (2);

(E) unless the borrower is a minor and the note or other evidence of obligation executed by him would not, under applicable law, create a binding obligation, shall provide that the loan shall be made without security and without endorsement;

(F) shall provide that no note or evidence of obligation may be assigned by the lender, except upon the transfer of the borrower to another institution participating under this part (or, if not so participating, is eligible to do so and is approved by the Commissioner for such purpose), to such institution; and

(G) may, pursuant to regulations of the Commissioner, provide for an assessment of a charge with respect to the loan for failure of the borrower (i) to pay all or part of an installment when it is due or (ii) to file timely and satisfactory evidence of an entitlement of the borrower to a deferment of repayment benefit or a cancellation benefit provided under this part.

(2)(A) No repayment of principal of, or interest on, any loan from a student loan fund assisted under this part shall be required during any period in which the borrower—

(i) is carrying at least one-half the normal full-time academic workload at an institution of higher education or at a comparable institution outside the United States which is approved for this purpose by the Commissioner;

(ii) is a member of the Armed Forces of the United States;

(iii) is in service as a volunteer under the Peace Corps Act; or

(iv) is in service as a volunteer under title VIII of the Economic Opportunity Act of 1964.

The period during which repayment may be deferred by reason of clause (ii), (iii), or (iv) shall not exceed three years.

(B) Any period during which repayment is deferred under subparagraph (A) shall not be included in computing the ten-year maximum period provided for in clause (A) of paragraph (1).

(3) The Commissioner is authorized, when good cause is shown, to extend, in accordance with regulations, the ten-year maximum repayment period provided for in clause (A) of paragraph (1) with respect to individual loans.

(4) The amount of any charge under clause (G) of paragraph (1) shall not exceed—

(A) in the case of a loan which is repayable in monthly installments, $1 for the first month or part of a month by which such installment or evidence is late and $2 for each such month or part of a month thereafter; and

(B) in the case of a loan which has a bimonthly or quarterly repayment interval, $3 and $6, respectively, for each such interval or part thereof by which such installment or evidence is late.

The institution may elect to add the amount of any such charge to the principal amount of the loan as of the first day after the day on which such installment or evidence was due, or to make the amount of the charge payable to the institution not later than the due date of the next installment after receipt by the borrower of notice of the assessment of the charge.

(d) An agreement under this part of payment of Federal capital contributions shall include provisions designed to make loans from the student loan fund established pursuant to such agreement reasonably available (to the extent of the available funds in such fund) to all eligible students in such institutions in need thereof.

(e) In determining, for purposes of clause (1) of subsection (b) of this section, whether a student who is a veteran (as that term is defined in section 101(2) of title 38, United States Code) is in need, an institution shall not take into account the income and assets of his parents.

(20 U.S.C. 1087dd) Enacted June 23, 1972, P.L. 92-318, sec. 137(b), 86 Stat. 275, 277.

CANCELLATION OF LOANS FOR CERTAIN PUBLIC SERVICE

SEC. 465. (a)(1) The per centum specified in paragraph (3) of this subsection of the total amount of any loan made after June 30, 1972, from a student loan fund assisted under this part shall be canceled for each complete year of service after such date by the borrower under circumstances described in paragraph (2).

(2) Loans shall be canceled under paragraph (1) for service—

(A) as a full-time teacher for service in an academic year in a public or other nonprofit private elementary or secondary school which is in the school district of a local educational agency which is eligible in such year for assistance pursuant to title I of the Elementary and Secondary Education Act of 1965, and which for the purposes of this paragraph and for that year has been determined by the Commissioner (pursuant to regulations and after consultation with the State educational agency of the State in which the school is located) to be a school in which the enrollment of children described in clause (A), (B), or (C) of section 103(a)(2) of title I of the Elementary and Secondary Education Act of 1965 (using a low-income factor of $3,000) exceeds 30 per centum of the total enrollment of that school and such determination shall not be made with respect to more than 50 per centum of the total number of schools in the State receiving assistance under such title I;

(B) as a full-time staff member in a preschool program carried on under section 222(a)(1) of the Economic Opportunity Act of 1964 which is operated for a period which is comparable to a full school year in the locality: *Provided*, That the salary of such staff member is not more than the salary of a comparable employee of the local educational agency, or

(C) as a full-time teacher of handicapped children in a public or other nonprofit elementary or secondary school system; or

(D) as a member of the Armed Forces of the United States, for service that qualifies for special pay under section 310 of title 37, United States Code, as an area of hostilities.

For purposes of this paragraph, the term "handicapped children" means children who are mentally retarded, hard of hearing, deaf, speech-impaired, visually handicapped, seriously emotionally disturbed, or other health-impaired children who by reason thereof require special education.

(3)(A) The per centum of a loan which shall be canceled under paragraph (1) of this subsection is—

(i) in the case of service described in clause (A), or (C), of paragraph (2), at the rate of 15 per centum for the first or second year of such service, 20 per centum for the third or fourth year of such service, and 30 per centum for the fifth year of such service;

(ii) in the case of service described in clause (B) of paragraph (2) at the rate of 15 per centum for each year of such service;

(iii) in the case of service described in clause (D) of paragraph (2), not to exceed a total of 50 per centum of such loan at the rate of 12½ per centum for each year of qualifying service.

(B) If a portion of a loan is canceled under this subsection for any year, the entire amount of interest on such loan which accrues for such year shall be canceled.

(C) Nothing in this subsection shall be construed to authorize refunding any repayment of a loan.

(4) For the purposes of this subsection, the term "year" where applied to service as a teacher means academic year as defined by the Commissioner.

(b) The Commissioner shall pay to each institution for each fiscal year an amount equal to the aggregate of the amounts of loans from its student loan fund which are canceled pursuant to this section for such year. None of the funds appropriated pursuant to section 461(b) shall be available for payments pursuant to this subsection.

(20 U.S.C. 1087ee) Enacted June 23, 1972, P.L. 92–318, sec. 137(b), 86 Stat. 277, 278.

DISTRIBUTION OF ASSETS FROM STUDENT LOAN FUNDS

Sec. 466. (a) After June 30, 1980, and not later than December 31, 1980, there shall be a capital distribution of the balance of the student loan fund established under this part by each institution of higher education as follows:

(1) The Commissioner shall first be paid an amount which bears the same ratio to the balance in such fund at the close of June 30, 1980, as the total amount of the Federal capital contributions to such fund by the Commissioner under this part bears to the sum of such Federal contributions and the institution's capital contributions to such fund.

(2) The remainder of such balance shall be paid to the institution.

(b) After December 31, 1980, each institution with which the Commissioner has made an agreement under this part, shall pay to the Commissioner the same proportionate share of amounts received by this institution after June 30, 1974, in payment of principal and interest on student loans made from the student loan fund established pursuant to such agreement (which amount shall be determined after deduction of any costs of litigation incurred in collection of the principal or interest on loans from the fund and not already reimbursed from the fund or from such payments of principal or interest), as was determined for the Commissioner under subsection (a).

(c) Upon a finding by the institution or the Commissioner prior to July 1, 1980, that the liquid assets of a student loan fund established pursuant to an agreement under this part exceed the amount required for loans or otherwise in the foreseeable future, and upon notice to such institution or to the Commissioner, as the case may be, there shall be, subject to such limitations as may be included in regulations of the Commissioner or in such agreement, a capital distribution from such fund. Such capital distribution shall be made as follows:

(1) The Commissioner shall first be paid an amount which bears the same ratio to the total to be distributed as the Federal capital contributions by the Commissioner to the student loan fund prior to such distribution bear to the sum of such Federal capital contributions and the capital contributions to the fund made by the institution.

(2) The remainder of the capital distribution shall be paid to the institution.

(20 U.S.C. 1087ff) Enacted June 23, 1972, P.L. 92–318, sec. 137(b), 86 Stat. 278, 279.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON D.C. 20202

STUDENT AFFIDAVIT

(For the Basic Educational Opportunity Grant, Supplemental Educational Opportunity Grant, College Work-Study, National Direct Student Loan, Guaranteed and/or Federally Insured Loan Programs)

TO THE APPLICANT FOR FEDERAL STUDENT FINANCIAL ASSISTANCE

Section 498 of the Higher Education Act *(20 U.S.C. 1088g)* requires that each recipient of a grant, loan, or loan guarantee under the Basic Educational Opportunity Grant, Supplemental Educational Opportunity Grant, National Direct Student Loan or Guaranteed/Federally Insured Student Loan Programs file an affidavit stating that money attributable to such a grant, loan or loan guarantee will be used solely for expenses related to attendance or continued attendance at an institution of higher education. The amount of compensation received from employment under the College Work-Study Program is based on a student's need for such funds to attend an institution of higher education; thus earnings from that program must be used solely for expenses related to attendance at such an institution. A student participating in the College Work-Study program shall file an affidavit to that effect.

WHERE TO FILE THE AFFIDAVIT

A notarized copy of this form is to be filed with the institution or agency which provides the funds to the applicant under these programs. In other words, if you receive a Federal grant or loan from an institution of higher education an affidavit must be filed with that institution. If you obtain a Guaranteed or Federally insured loan from a bank or other lending agency, the form must be filed with that bank or lending agency. The institution or agency will insert the affidavit in your records.

NOTE: The student must sign this affidavit in the presence of a notary or other person legally authorized to administer oaths or affirmations. This person must also sign the affidavit.

NUMBER OF COPIES

You may need to file more than one copy of this affidavit in case more than one institution or agency is providing money to you. If you receive a grant from an institution of higher education and a loan from a bank, a notarized copy of the affidavit must be filed with both the institution and the bank. If you receive a grant, work-study assistance, and a loan from an institution of higher education, only one copy of the affidavit must be filed with the institution.

WHEN TO SUBMIT THE AFFIDAVIT

The affidavit must be submitted before or at the time you receive financial assistance from the institution or agency. The certification is effective for the academic period covered by the student financial aid award you are receiving.

AFFIDAVIT

I hereby affirm that any funds received under the Basic Educational Opportunity Grant, the Supplemental Educational Opportunity Grant, the College Work-study, the National Direct Student Loan, or the Guaranteed/Federally Insured Loan Programs will be used solely for expenses related to attendance or continued attendance at

____
(Name of Institution)

________________________ Date: ________________
Signature (sign only in presence of Notary)

Academic period covered by award(s) ________ *(month)* 19__ *(year)* to ________ *(month)* 19__ *(year)*

Subscribed and sworn before me this ____ day of __________, 19__

My commission expires: ________________

SEAL

____
(Signature of Notary Public)

____
(Address of Notary Public)

OE FORM 1289, 4/74

THE GUARANTEED STUDENT LOAN PROGRAM, SEPTEMBER 1973

(By the National Council of Higher Education Loan Programs)

FOREWORD

The purpose of this issue paper is to provide a foundation for discussion concerning the purpose and the future of the Guaranteed Student Loan Program. Few can deny that the Education Amendments of 1972 have brought much confusion to the program, with the result that commercial lenders have reduced their dollar support of the program.

This paper has as a major purpose to ask questions of those people who establish national policy, legislatively and administratively. Those persons must first establish a firm foundation of policy and direction before the program administrators can begin to rebuild the program. At the present time, the program is being torn apart by those who differ among themselves as to the program's purpose and importance.

This paper has been written by persons who have as their major responsibility the administration of a guaranteed student loan program. Rather than only viewing this program as one of several to be administered, the authors live with the minute details of this program day in and day out. It is hoped that these credentials will lend some weight to the suggestions made, and lend some urgency to the questions asked.

This paper seeks not only to address the problem at hand, but attempts to also discuss some certain crises of the future. To the best of their ability, the authors recorded all potential options and solutions which came to their collective mind, with no attempt to obscure any alternative not popular with the authors.

These questions and suggestions, now, are laid before those who must decide the future of this program. And, it is with no small measure of hope that those who are used to legislating and regulating in arenas of "captive audiences" will remember the central lesson of the past year. That is, unless this program is kept simple, and unless it is reasonably attractive to the lending community, the most eloquent and precise legislative and regulatory efforts will not induce the lending community to make an adequate amount of dollars available to our nation's students.

CHAPTER I—THE DILEMMA OF THE STATES: REINSURANCE OR FEDERAL INSURANCE?

I. A QUOTATION FROM THE STATUTE

"The purpose of this part is to enable the Commissioner (1) to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions . . . (2) to provide a Federal program of student loan insurance for students or lenders who do not have reasonable access to a State or private nonprofit program of student loan insurance . . ." [Higher Education Act of 1965 (as amended), Title IV, Part B, Section 421(a)]

II. THE ALTERNATIVE FORMS OF PROGRAM ADMINISTRATION AVAILABLE TO A STATE

A. Establish its own guarantee agency.

B. Contract with a private nonprofit agency to administer the state program.

C. Request the implementation of the Federally Insured Student Loan Program.

III. THE DIFFERING LEVELS OF FEDERAL INVESTMENT IN "FEDERAL" STATES VS. STATES WITH GUARANTEE AGENCIES

There are six distinct items in the Guaranteed Student Loan Program which require the investment of Federal funds. In four of these six items, a state would realize an advantage by choosing the implementation of the Federally Insured Loan Program over the other two non-Federal alternatives. For purposes of this paper, these items are labelled "Federal Investment Variables" (F.I.V.'s) and they are listed and compared in the table on the following page. Each of these variables must be examined in any contemplated attempt to bring greater or total equity in the treatment of all fifty states and the territories.

[In percent]

Federal investment variables (FIV's)	States with the federally insured loan program	States with guarantee agencies
Federal liability for defaulted principal amounts	100	[1] 80
Federal liability for defaulted accrued interest amounts	100	(2)
Federal liability for collection costs and pursuit of defaulted claims	(3)	(4)
Federal liability for other costs of program administration	(3)	(5)
Federal liability for payment of interest benefits	(6)	(6)
Federal liability for payment of special allowance	(6)	(6)

[1] Where a State has signed a reinsurance agreement, the Federal Government is liable for 80 percent of the principal amount which a guarantee agency pays to a lender on a defaulted claim. The State bears the remaining liability.

[2] The guarantee agency is responsible for 100 percent of the accrued interest due a lender under their contractual agreement, none of which is reinsured.

[3] Full cost.

[4] The guarantee agency is obligated to pursue the collection of all defaulted accounts and must forward 80 percent of all recoveries on reinsured accounts to the Federal Government. The guarantee agency bears the full costs of collection on these accounts, and often the collection costs exceed the 20-percent interest which the agency has in the accounts.

[5] The administrative costs referred to include the processing of applications and default claims, the servicing of schools and lenders, and the attendant administrative details. (It is recognized that the Federal Government bears some administrative expenses for certain nationwide responsibilities such as the payment of interest benefits.) Currently, student borrowers are charged an "insurance fee" by both the federally insured loan program and many of the guarantee agencies. The guarantee agencies are permitted to use these fees to defray a portion of any of the States' liabilities associated with the first 4 investment variables listed above. However, these fees do not adequately cover the costs, in either the Federal program or the State programs. The inequities arise because of the fact that the States which have guarantee agencies must bear all expenses in excess of the insurance fees while the Federal Government bears all excess expenses on behalf of the balance of the States.

[6] Although Federal liability for student interest benefits and special allowance currently are the same in both Federal and non-Federal States, they still remain, together or individually, variables which can statatorily be made unequal as a means of encouraging or further discouraging State investment in the program.

IV. AN HISTORICAL PERSPECTIVE

In the beginning days of the program, all states had some type of student loan program which basically took one of three forms:

A. The state operated its own guarantee agency; or

B. The state contracted with United Student Aid Funds, Inc. to administer the State program; or,

C. The Office of Education authorized United Student Aid Funds, Inc. to administer programs in the remainder of the states (thirteen) using those states' allotment of the appropriated Federal seed money as a reserve fund.

In those early days, many states in each of the above three categories had reserve funds comprised wholly of their Federal seed money allotment. At such time as these reserve funds became fully encumbered by student loan volume, the states were faced with the choice of appropriate state dollars to continue the program on its then current basis, or to choose an alternative which required no state investment, the implementation of the Federally Insured Loan Program. Since the inception of the program, over one-half of the states have chosen the latter alternative.

V. THE PRESENT SITUATION

With a few exceptions, the 24 states who continue to invest state dollars in the guaranteed student loan program are those states whose commitment to guaranteed loans predates the 1965 Federal legislation. However, the continuing easy availability of the fiscally more attractive Federal program constantly threatens the continued existence of these established state programs. Many program administrators undergo very penetrating questioning by state officials and legislators each year or biennium as they seek additional administrative funds, greater reserve fund capacity, or any type of amendment to state legislation. Many budget officials in these states right now are considering the potential abolition of the state guarantee agencies as an easy and painless means to realize a substantial savings to the state if the Federal government will offer a similar program and assume all costs. This knowledge often leads state program administrators to be ultra-conservative in their statements of staffing and monetary requirements (often to the detriment of the program's administrative quality) as they seek continued renewal of their state's fiscal support.

VI. A CONFLICT IN LEGISLATIVE PURPOSE AND ADMINISTRATIVE INTENT

In 1965, the Congress appropriated Federal seed money to fulfill one of the stated purposes of the Act which was to encourage the establishment of adequate non-Federal loan insurance programs. In 1968, the Congress amended the statute to provide a substitute for the seed money which would attempt to carry out the same purpose. This substitute was named "reinsurance" and provided a means to substitute Federal credit for Federal dollars. Speaking for the Administration in 1968 before the House Special Subcommittee on Education concerning the purpose of reinsurance, [then] Associate Commissioner for Higher Education Peter Muirhead indicated that ". . . in the long run what we would like to see in place here would be 50 State operated programs making these loans available . . ." and that ". . . our objective, our clear-cut objective in the guarantee loan program, is to look toward a state operating in these programs, endorsing what this committee has endorsed many times: the whole concept of creative Federalism. We should do all that we can to carry out that concept and to have the States support it."

If, indeed, it today remains the contention of the Congress and the Administration that the purpose of reinsurance continues to be to provide an incentive for states and private organizations to establish adequate loan insurance programs, then the credibility of this stated purpose must be examined in light of the alternative to reinsurance, which is a program of Federal insurance at no cost. Standing alone, reinsurance could begin to fulfill its stated purpose. However, when viewed in light of the alternative of the no-cost Federal program available to every state, it can at most be claimed that reinsurance permits the survival of the more determined state programs, but by no stretch of the imagination can it be argued that it fulfills its purpose of encouraging the establishment of any new non-Federal programs.

VII. THE CENTRAL ISSUE TO BE RESOLVED

How is the incompatibility of the stated purpose of reinsurance and the continued existence of the alternative no-cost Federal program to be resolved? There appear to be two alternatives:

A. Strike that portion of the statute which indicates that one of the purposes of the act is to encourage the establishment of adequate non-Federal loan insurance programs. Insert in its place more appropriate wording which would indicate that a purpose of the act was to permit the establishment of loan insurance programs by willing states or private, non-profit agencies.

B. Amend legislation to bring greater equity of Federal investment in all states. This exercise would require an answer as to whether:

1. Too little is being offered to the states having guarantee agencies; or,
2. Too much is being offered to the "Federal" states.

VIII. THE OPTIONS FOR LONG-RANGE PROGRAM ADMINISTRATION

The statute may be amended in an attempt to stabilize or alter the distribution of Federal and non-Federal states by establishing total, greater, or lesser equity in any, or all, of the Federal Investment Variables. One of the following goals must be first estabished:

A. Institute a nationwide program of Federal insurance, and eliminate further state participation and investment.

B. Seek full participation by all 50 states, and allow the Federal program to expire on a timely basis.

C. Maintain a mixture of Federal and non-Federal states, but:

  (1) Seek to acquire more Federal states.
  (2) Seek to acquire more guarantee agencies.
  (3) Attempt to stabilize the current distribution of Federal and non-Federal states.

IX. METHODS FOR ACHIEVING EACH OPTION

A. Nationwide Federal Program

This would require the discouragement of the continued operation of the remaining guarantee agencies. This would be accomplished by any widening of the disparities in any of the current Federal Investment Variables. Removing interest benefits or special allowance eligibility for only the guarantee agencies' student loans would accomplish this goal fairly fast. So would the removal or reduction of the 80% reinsurance. And, as long as the alternative Federal program remains an option, so would any revival of the year-old discussions about requiring all guarantee agency states to charge their applicants an "insurance fee" (not all states currently do so) with the additional requirement that these states remit a portion of such fee to the Federal government for the privilege of reinsurance. (It now seems incredible that the Administration once considered charging states who are investing their own funds in the program [if insurance fees are collected, they never fully cover all administrative expenses and default liabilities], but never actively discussed the possibility of charging non-investing state governments a "fee" to cover any portion of administrative costs and default liabilities in the Federally Insured Loan Program.)

B. Full State Participation

This goal could be accomplished by nothing less than eventual elimination of the alternative Federal program (or by making the Federal program more costly to a state than the establishment of their own program). While the Federal program originally was implemented in the states on a "temporary" basis, these states continually have gambled on successive extensions of the life of the Federally Insured Loan Program—and they have won their bets. What state governor would seriously ask his legislature to appropriate funds to pay for a program they are now getting for free and when they see no prospect of it expiring? Constituent demand for this program is now much stronger in the mid-1970's than it was back in the mid-1960's when many of the 50 states had never truly experienced the benefits of a statewide program (or had had only a short-term, inconclusive experience with one), and their citizens had not become accustomed to the availability of this form of assistance. Recent experience with the vast public reaction to the new legislative amendments should indicate to some degree the pressure an aroused citizenry would place on a state if the "temporary" Federal program was to be given a definite expiration date, and it was seen that the state was not taking steps to assure the continuation of similar benefits to its citizens by establishing a state program. If this alternative is given serious consideration, there would be some merit to avoiding a single, nationwide expiration date of the Federally Insured Loan Program. Rather, it might be more appropriate to lapse the Federal program within individual states a specified period of time (6 months?) after the final day of each state's next regularly scheduled session of their legislature.

This alternative also would require the Congress to re-examine the current parameters within which individual state agencies have been allowed to tailor their loan programs to complement other existing state student assistance programs and state higher education funding goals. (For example, state agencies currently are permitted to make choices of borrowing maximums for individual academic years which range from $1,000 to $2,500). Many of these state options are not undesirable. However, it would be most unreasonable for the Congress to allow 50 state agencies a range of choices, and then expect 50 identical responses. The present variations among state guarantee agencies bears testimony to this. (It should be stated, however, that any substantial "tightening" of these parameters, without first removing the alternative of simply implementing the Federal program, definitely could result in the sudden acquisition of several more "Federal" states.)

C. Maintain a Mixture of Both Federal and non-Federal Programs

1. Seek to acquire more Federal states.

A continuation of the current disparity in the Federal Investment Variables should accomplish this goal without the need for further program modification.

2. Seek to acquire more guarantee agencies.

To realize this goal, all the Federal Investment Variables would have to be equalized for all 50 states, and, ideally, at least one of the variables should be funded in all states at less than 100%. The key ingredient in this alternative is to establish a foundation on which a state may choose to build. The combinations of Federal Investment Variables are endless. For instance, rather than insuring 100% of the defaulted principal liability in half the states and reinsuring 80% in the other half, the government could consider insuring or reinsuring 80% or 90% of the defaulted principal liability in all states. (Four states currently are functioning with an 80% or a 90% guarantee.) A state could choose to guarantee the remaining 10% or 20%, or it may choose not to do so. The principal ingredient in successfully realizing this alternative is to be certain that a state will not realize any financial gain by implementing or retaining the Federally Insured Loan Program.

3. Attempt to stabilize the current distribution of Federal and non-Federal programs.

Complete stability is nearly impossible. The program structure which would come the closest to this goal would be to equalize all Federal Investment Variables in all 50 states at 100% Federal funding. In this environment, the Federal states would continue to have little incentive to establish agencies (except maybe for the advantages of local administration, an incentive which might be easily offset by simple inertia or a disinclination to get involved in administrative "red tape" when it is not required). The non-Federal states would realize no gain by "going Federal". However, this is an expensive alternative, and it has only the other single advantage of providing and retaining local servicing staff and the other benefits of local administration when the state in question has an established agency.

The trend toward "going Federal" can be partially stabilized (or at least retarded) by bringing equity to some, if not all, of the Federal Investment Variables. There are currently two Federal Investment Variables which are particularly troublesome to state agencies:

(*a*) Federal liability for defaulted accrued interest amounts.

Until 1972, the Federally Insured Loan Program and some of the state guarantee agencies did not insure accrued interest. In 1972, the Federal statute was changed to insure interest in the Federal program, but a similar amendment to reinsure interest in the non-Federal states was not included. The establishment of SALLIE MAE has made the insurance of interest practically mandatory, if the loan paper is to be readily marketable. However, the states who do not insure interest are faced with the potential threat that asking their legislators to assume more defaul liability at this time could be the "straw that broke the camel's back," resulting in the implementation of the Federal program in that state.

All states who currently are insuring interest will face a crisis if the Congress should adopt any further legislative provision which might require the deferral of accruing interest on non-subsidized loans during the period of time the borrower is in school. Such a provision will add substantially to the dollar amount of each defaulted claim. Unless such additional amounts were reinsured, many state fiscal officers could mandate the abandonment of the state program and the implementation of the Federal program. The ideal environment which would afford the state agencies the greatest amount of protection would be the total equalization of this Federal Investment Variable at 100% for all 50 states. However, even an 80% reinsurance of this amount would be helpful.

(*b*) Federal liability for collection costs and the pursuit of defaulted claims.

Many state agency administrators are frequently questioned by dollar conscious state officials and legislators as to why the agency must spend amounts of money on the collection of defaulted accounts when these collection costs often exceed the 20% of the collected payments which the agency may retain on reinsured accounts. Program administrators are occasionally advised to accept the 20% loss and eliminate the expensive collection functions. It is difficult for a program administrator to explain that the adoption of such an attitude would result in the cancellation of the state's 80% reinsurance privileges, which would require the state to accept the 100% insurance alternative in its place. In spite of the fact that legislative passages to the contrary can be cited by state program administrators, their informed state officials and legislators, after considering the availability of the alternative federal program, form the opinion that the Federal government is not assuming 80% of a state's liability, but, rather, that the state is assuming 20% of the Federal government's liability, and paying a heavy administrative price to do so.

To bring total equity to this Federal Investment Variable for all states, the Federal government should assume 100% of all collection costs for all 50 states. (If total equity is not desired, the current 80%—20% reinsurance "split" seems a reasonable request on the part of the state agencies.) For administrative ease, and to eliminate potential future disagreements concerning the legitimacy of specific collection costs, the Congress should legislate a flat percentage for collection costs which could be deducted from reinsured recoveries. For instance, the Federal government would pay the state 80% on a reinsured claim, and the state would return a flat 50% of all recoveries, until such time as the government has been reimbursed for 50% of the claim plus interest. (An equitable percentage figure can be established by a survey of the average collection costs on delinquent loan portfolios. Due consideration must be given to the fact that guarantee agencies have collection costs on accounts that they are not successful in recovering which often exceed the costs of collections on accounts which are ultimately fully recovered.)

X. RELATED POLICY QUESTIONS WHICH MUST BE ANSWERED

A. Whose responsibility is it to bear the cost of this program?

1. The states?
2. The Federal government?
3. Is it to be shared by the states and the Federal government?
4. Are the full costs to be passed directly on to the borrower by a system of application and processing fees?

B. What value is to be placed on local program administration? In dealing with leaders? Schools? Students? The general public?

C. What discretion should individual guarantors have in establishing student eligibility criteria? Should the Congress establish parameters within which the guarantors may design a program? Should the Congress establish absolute eligibility criteria, and, in light of the easily available Federal program alternative, what incentives could be given a state for the adoption of same?

D. Should a universal application form be mandated, or would a substantially common school certification section suffice? (The schools are practically the only party to the application who deal consistently with several different guarantors.)

E. Should the state agencies be offered access to the national student master computer file to check for activities with other guarantors and establish the student's remaining dollar entitlement under the statute? (All of the large agencies already are computerized and could use telephone line hookups directly into the Federal system. Or, computer tapes or cards could be exchanged.)

F. Today at least twenty-nine states serving 80% of the nation's population are processing student applications for financial assistance. Presently there is virtually no coordination between State and Federal agencies. Students seeking aid simultaneously from different programs are faced with multiple eligibility criteria, multiple application forms, and multiple deadlines. The delivery vehicles for all forms of student financial aid must be reassessed, and one of the following goals chosen:

1. Administration of all Federal aid programs handled solely by the Office of Education on a centralized or regionalized basis.
   - (*a*) Student applications to be processed by, and individual student eligibility determined by, the Office of Education.
   - (*b*) Would require rather specific and precise student eligiblity criteria to be employed.
   - (*c*) Separate application process required to establish eligibility for state assistance.
   - (*d*) Would require vehicle for the coordination of aid "packaging" to be established between the administering agencies.
   - (*e*) Tends to promote a "student consumer" concept in which a student may first establish his eligibility for assistance and then identify the school which will best serve his educational needs.
2. Administration of all Federal aid programs delegated to the colleges and vocational schools having program eligibility.
   - (a) Student applications to be processed by, and individual student eligibility, determined by, the school aid counselor.
   - (*b*) Student eligibility may be rather specific and precise, or flexible and subject to interpretation by the school counselor, as is currently the case.
   - (*c*) Separate application process required to establish eligibility for state assistance.
   - (*d*) Packaging of state and Federal aid performed by the school aid counselor.
   - (*e*) Tends to weaken a "student consumer" concept since student must seek a school on the basis of financial considerations in addition to the academic considerations. Financial assistance can vary in amounts for individual students, even among schools of similar costs.
3. Administration of all Federal aid programs contracted to the state agencies responsible for administering state student aid programs.
   - (*a*) Student applications to be processed by, and individual student eligibility determined by, the state contractor.

(*b*) One application would suffice for all state and Federal aid.

(*c*) Would require rather specific and precise student eligibility criteria to be employed in the Federal aid programs.

(*d*) The central packaging concept could save both state and Federal dollars which are lost each year through "over awarding" due to poor coordination between programs.

(*e*) Strongly promotes the "student consumer" concept.

(*f*) Could include an optional feature permitting the school counselor to "override" the computed eligibility for Federal dollars.

CHAPTER II—TARGET POPULATION OBJECTIVES: WHO SHOULD THE PROGRAM SERVE?

I. THE ORIGINAL PURPOSES AND EFFECTS OF THE GUARANTEED LOAN LEGISLATION

A. A Guaranteed loan concept, using private capital along with the investment of individual states was less expensive to the federal government than a loan program fully funded and administered by the federal government.

B. A guaranteed loan concept already was operative in several states, and the concept had proven workable. Also, the existing programs offered an attractive base on which to build.

C. A Guaranteed loan was the only means by which the private lending community would offer otherwise unsecured, low interest loans to students.

D. A Guaranteed loan concept, working through commercial lending institution was eminently suited to serve the (then) middle income target population because this income group was mostly likely to have, or be a prime candidate for, other banking relationships, a fact which would make such a program more attractive to commercial lending institutions.

E. A Guaranteed loan provided the middle income family a loan of accommodation which they were permitted to use to replace any or all of the "expected family contribution" as computed by the traditional needs tests.

F. A subsidized loan was a less expensive alternative to offer the middle income population than the tax credit for educational expenses proposals which were being offered at the same time.

G. A Subsidized loan eliminated the need to choose between two unsatisfactory alternatives, either of which would increase the "risk factor" of the loan if the consumer would have been required to pay his own interest: They are:

(1) Require the student to periodically pay his interest while he is a student, even though his income is minimal; or,

(2) Require the lender to defer the accruing interest collection until the student leaves school (adding the deferred interest to the principal amount of the student's Payout Note), thus obligating the student to attempt to manage a greater monthly payment when he leaves school.

II. THE CENTRAL ISSUE: IS HIGHER EDUCATION A RIGHT OR A PRIVILEGE?

A. The Low Income Student

(1) Cannot pay educational costs out of current income

(2) Requires financial aid in order to attend school

(3) Financial needs analysis contribution curves require little, if any, contribution from the applicant's family towards his educational costs

(4) Student often receives a financial aid package approximately his total cost of education

(5) Personal sacrifice of existing family standard of living not expected in the evaluation of need for assistance.

B. The High Income Student

(1) Can pay educational costs out of current income

(2) Does not require financial aid in order to attend school

(3) Personal sacrifice of existing family standard of living is not an issue because of the high income levels which easily accommodate the educational costs.

C. The Middle Income Student

(1) Often cannot pay all educational costs out of current income

(2) Often requires financial aid in order to attend school

(3) Financial needs analysis contribution curves require fairly substantial contributions from the applicant's family towards his educational costs

(4) Personal sacrifice of the family's achieved standard of living is definitely expected in any evaluation of need for assistance.

Loan program administrators sense that there are those in the Congress and the Administration who seek a change in the perceived original purpose of a program of subsidized, guaranteed loans for middle income families. The 1965 legislation appeared to give recognition to the fact that middle income families were having great difficulty meeting the costs of a post-secondary education (especially at private schools) without a great amount of financial sacrifice. These families were usually not eligible for any other sources of student assistance because the traditional formulas for distributing available financial aid dollars required family contributions representing financial sacrifice in the case of middle income families. Before the implementation of the Education Amendments of 1972, these families were given the alternative of a subsidized loan to replace part or all of any computed "expected family contribution."

However, in evaluating the effects of the Education Amendments of 1972, there are those who merely seek to determine whether any middle income students are being deprived of a post-secondary education without any concern as to what the cost might have been to his family. Such questions presuppose that it is the purpose of this program to assist only those students who would have access to a post-secondary education if the loan funds were not available. If such is the case, then it must be made clear to the public that the target population this program is to serve has been changed over the last eight years.

III. THE TARGET POPULATION OPTIONS

In order to establish a strong, well functioning Guaranteed Student Loan Program, one of the five target population options following must be chosen as a definite goal of the program.

A. Low Iincome Students *exclusively*, offering no source of student assistance to a student from a middle income family.

B. Low Income Students *primarily*, but without excluding those middle income students who have sufficient influence with lenders to secure funds. (The effective target population at present.)

C. Middle Income Students *exclusively*, directing the low income family to other financial aid programs for assistance.

D. Middle Income Students *primarily*, but without excluding those low income students who have sufficient influence with lenders to secure funds. (The perceived original 1965 legislative intent.)

E. Both Low Income and Middle Income Students *equally*.

IV. DESIGN ELEMENTS FOR SUCCESSFUL POPULATION "TARGETING"

Once a definite target population option from above is selected, the three design elements required to accomplish the targeting must be totally consistent among themselves and with the objective. The current state of the program is the results of design elements which are inconsistent with the stated objective. The three design elements are:

A. Student Eligibility Criteria

This design element can be interpreted broadly enough to include many characteristics such as number of credit hours being taken, type of institution attended, etc. However, for purposes of this paper, all discussion will be limited to eligibility criteria as it pertains to a student's financial status and his ability to contribute towards his educational costs.

Student eligibility criteria as discussed in this context may be applied interchangeably to eligibilty for a loan guarantee or elgibility for a program benefit of such significance that it would realistically, but not technically, determine the student's access to a loan. Federal interest benefits currently serve as an excellent example of the latter. (NOTE: There follows later in this chapter a discussion of possible alternative methods of improving, if not equalizing, the attractiveness of non-subsidized loans as they compare to subsidized loans.)

B. Interpretive Flexibility

This design element deals with the flexibility which any party to the application (schools, lenders, and guarantors) might have in modifying or "overriding" a specific or implied eligibility criteria. It speaks to the question of when, and how frequently, exceptions may be made in the administration of the program. In the current application process, it deals with the limitations on the flexibility a school or lender has in overriding the computational results of the financial needs analysis system.

C. Administrative Simplicity

The experience of the past year has taught program administrators that eligibility criteria and interpretive flexibility alone is not sufficient to assure that the intended loan recipients will be properly served. Unless the administrative requirements attending the other two elements are simple enough to maintain an adequate level of school and lender cooperation and participation, the objectives of the other two design elements will not be realized. Much of the lenders' current reluctance to make non-subsidized loans is the function of a deficiency in this one design element.

V. ALTERNATIVE DESIGN ELEMENT STRUCTURES

A. Student Eligibility Criteria (analysis of family financial resources)

1. Do not change the current method of analyzing family financial resources. This alternative will result in a continued targeting of guaranteed loans to the low income student.

2. Liberalize the current method of analyzing family financial resources to extend eligibility to more middle income students. There exist several methods available to accomplish this:

(*a*) Retain the "needs test" concept, but employ a formula which results in a smaller "expected family contribution." This alternative is not without its liabilities, a few of which follow:

(1) There will be inertial resistance from many schools who have employed the ACT and CSS systems for many years and have some deep-rooted loyalties.

(2) Unless ACT, CSS or another contractor undertakes to offer computation services, the new needs test would place all analysis in a "hand computation" environment and nearly grind processing to a halt at the busiest times of the year.

(3) Whether the results of the needs test are hand computed or computer produced, a continuation of any form of needs test will perpetuate the complicated July-August-September "log jam" of applications awaiting computation results. Many August and September applicants will not receive loan funds in time to pay tuition when due.

(4) The current existence of three major national needs analysis systems (ACT, BEOG, and CSS), plus individual needs analysis systems for the awarding of state financial aid benefits, already is very confusing to many people. Adding another major system is bound to create more confusion, and potentially result in the wrong system occasionally being used to determine eligibility for a specific program.

(5) Working with two (or three) different needs analysis systems will greatly complicate the school counselor's responsibility for constructing an aid package which does not exceed a student's "need."

(6) The school counselors would face formidable tasks in explaining to a student and his family that their "expected family contribution" for a National Direct Loan is $2,000, but the contribution for a Guaranteed Student Loan is only $700. This will inevitably invite the question from the public as to which is the more accurate or "reasonable" to expect from the family in light of the true family circumstances. Such a disparity could evoke public suspicion as to whether the historical measuring devices are truly "reasonable," or whether they merely represent arbitrary devices for allocating limited funds to families who are comparatively "most needy" while trying to give the illusion of meeting the families' actual need, but without doing so. Arousing public suspicion regarding the validity of the historic means of distributing financial aid could result in a crisis in all financial aid programs.

(*b*) Instead of a "needs test" concept, employ an "entitlement" concept. There are two types of entitlement concepts:

(1) The absolute (or "yes/no") entitlement concept.

An absolute entitlement concept deals with determining a student's eligibility for the benefits he seeks, as opposed to determining the amount for which he might be eligible. (The original $15,000 adjusted family income ceiling for interest benefits represented a very simple form of determining absolute entitlement for benefits.)

(a) For those who favor the retention of the adjusted family income concept of determining entitlement, but who simultaneously are concerned that the current formula to determine the adjusted family income is not sensitive enough to certain family circumstances, the adjusted family income formula can be adjusted. Subtractions could be made for all the off-sets against income allowed in computing a family's discretionary income in the BEOG needs analysis. In the most literal sense, the discretionary income amount is an "adjusted" family income. Of course, many variations on this theme are possible.

(b) If relative simplicity of formula was retained, the student and his family could compute eligibility as they did with past adjusted family income computations. This would eliminate the computational delays currently being experienced with the needs test and help relieve the July-August-September "log jam."

(c) The "15/15 proposal" is a variation of an absolute entitlement concept.

(2) The amount entitlement concept.

The amount entitlement concept deals with the determination of a dollar amount of benefits that a student is entitled to receive.

(a) Following is a simple example of one entitlement formula which is given solely for illustrative purposes and without defense of any of its components: $\$2500+\$750x+\$1500y-.25z$; x = number of dependents; y = number of family members in post-secondary education; z = adjusted gross income from income tax form.

(b) Simple amount entitlement formulas could be computed by the applicant and his parent.

A. Student Eligibility Criteria (analysis of family financial resources)

(*b*) (2) (c) The amount entitlement concept differs from the "liberalized" needs concept in that references to, and computations of, expected family contributions are avoided, thus eliminating the necessity of explaining the differing contributions to families to take exception. A second difference is that the amount entitlement is based solely on family financial data and usually does not involve a comparison of educational costs. (An amount representing educational costs could be inserted but not without some difficulty and further complexity.)

(d) An amount entitlement concept, if used to determine eligibility for federal interest benefits, would have the same negative feature as the current needs test concept does now. It often will result in a student's loan request being partially eligible for subsidy. Given lenders' current attitude toward non-subsidized loans, and given further lenders' almost total boycott of partially subsidized loans, an amount entitlement used for determining eligibility for interest benefits could potentially deny many students their rightful maximum loan amount.

3. Instead of any determination of financial need or entitlement, completely eliminate all financial eligibility criteria.

The question must be answered as to whether the collection and consideration of parental financial data is relevant to the guaranteed student loan program. The following comparison of the accepted presumptions in the awarding of gift aid and loan aid bring the question into focus:

Gift Assistance

Educational costs are permanently relieved.

Educational costs are presumed to be the responsibility of the parents of dependent students.

Educational costs are immediately paid by the gift assistance at a time when parental financial information could be relevant to the transaction.

Loan Assistance

Educational costs are merely deferred, not relieved.

Educational costs are legally the responsibility of the student, not his parents, the minute a guaranteed loan promissory note is signed.

Educational costs are paid (as opposed to deferred) by the student after he leaves school at a time when dated parental financial data is no longer, if ever, relevant.

As financial eligibility criteria relates to the eligibility for federal interest benefits, there are two conditions under which such financial eligibility criteria can be eliminated. They are:

(*a*) Retain federal interest benefits as a feature of the program.

This is a costly alternative which would make virtually everyone eligible for federal interest benefits. (The criteria could be removed for some students as in the "15/15 proposal," but this is truly an entitlement concept variation.)

(*b*) Eliminate the federal interest benefits.

This would result in a fantastic savings to the federal government. However, care must be exercised that much of that savings is not also the result of a decline in default payments and administrative costs brought about by the total collapse of program application volume.

Alternative means of collecting accrued interest from the borrower are listed and discussed in the Appendix at the end of this chapter. It is difficult to envision any of the alternatives as being equally attractive to lenders as the current program of interest subsidy, and limited surveys of lenders have confirmed this. Adoption of any one of the alternatives as a vehicle for eliminating all federal interest benefits could result in reduction of application volumes which could range from moderate to severe.

However, some of the alternatives listed definitely represent viable means of increasing the numbers of non-subsidized loans currently being made by lenders, and could provide an excellent complement to a program of restricted interest subsidy eligibility.

B. Interpretive Flexibility (Alternative Design Element Structures for:)

The degree of interpretive flexibility allowed a school and lender under the current program has been a source of dissatisfaction to many people. There is a great variance in the interpretations of schools and lenders regarding their perception of just how much flexibility they truly have in modifying the results of needs analysis computations. If greater flexibility is desired, there are potentially two alternatives to investigate:

1. Legislative remedy

The alternative of legislative amendment offers virtually limitless options. The Congress could choose to make the results of the needs analysis virtually binding in all cases. It could choose to make it totally non-binding on either the school's recommendation or the lender's deliberations, or it could choose any shade of flexibility between the two extremes. However, care must be taken that any degree of interpretive flexibility be consistent with the target population goals and the other target population design elements.

2. Administrative remedy

The limits imposed by the wording of the current statute would permit few, if any, interpretations which might increase a school's or a lender's interpretive flexibility. The statute fairly specifically defines the limits of a school's flexibility. Perhaps more flexibility could be given a lender in his interpretation of the school's recommendation if the following presumptions could be supported by counsel:

(*a*) The statute requires the school to determine a student's "amount of need" in both the under $15,000 and $15,000 or greater adjusted family income categories.

(*b*) The statute requires, again in both categories, that in order for the student to be eligible for federal interest benefits the school must forward to the lender a statement recommending a loan in the amount of the student's need.

(*c*) In the under $15,000 category, the school's recommendation in the amount of the student's need may be zero without totally precluding the student's eligibility for federal interest benefits. (This is currently the case.)

(*d*) In the $15,000 or greater adjusted family income category, before a school may submit to a lender a statement recommending a loan in the amount of a student's need, he must first determine that the student is "in need for a [any] loan." This determination presumably is made by employing essentially the same process used to determine a student's "amount of need." If such determination shows the applicant to be "in need" of any loan (of one cent or more), then, and only then, is he authorized to make a recommendation to a lender in the amount of such need.

(*e*) There is a definite, intended distinction between the terms "amount of need" and "need" (as the latter is employed in the phrase

". . . to be in need of a loan . . ."). The terms and meanings are not interchangeable in the statute. Where the term "amount of need" is employed, a student's amount of need could be zero without precluding his eligibility for interest benefits. The term "amount of need" does not imply the required presence of "need," the latter implying that some disparity exist between a student's educational costs and his resources to meet those costs.

(*f*) That the statutory language places as the student's primary eligibility requirement for interest benefits that his school has forwarded to the lender a recommendation in accordance with the statute which can only be done by the school if: (1) his adjusted family income is under $15,000, or (2) his adjusted family income is $15,000 or more and the school has found him to be "in need."

(*g*) That once the student's eligibility for interest benefits is so determined, because neither the text of the legislation nor the conference report indicate that the lender is to regard the school's statement as a decree rather than a recommendation (generally defined as advice or counsel), the lender should not be bound by the recommendation nor should be required to give any form of explanation for any deviation from the recommendation after giving it his consideration.

The above alternative interpretation represents an absolute rather than an amount entitlement concept (discussed earlier in this chapter). Even if this interpretation should eventually be adopted, however, many lenders (probably most lenders) still would not exceed the school recommendation in most cases, especially where a student is certified to have an amount of need which is zero. However, it would yield more middle income loans than are now being made. Perhaps it represents an interim step to corrective legislation, but it would not solve the actual problem.

C. Administrative Simplicity

It would take legislation to bring true administrative simplicity. In seeking this simplicity, one unavoidable dilemma must be faced and recognized. In the science of evaluating family financial strength, the element of simplicity is not compatible with the desired element of precision. A simple eligibility formula (like the earlier $15,000 adjusted family income ceiling) must be less precise than other formulas because limited data is collected and the computations are not complex. A simple eligibility formula exposes the program to some probability that certain unintended persons will benefit from the formula.

On the other hand, a more complex formula which demands a considerable amount of data to be subjected to very complex computations, will serve the function of eliminating more of the unintended persons who might otherwise receive benefits. However, this same formula will also frighten, frustrate, and discourage those very persons for whom the program was intended (not to mention the loss of support from administering schools and lenders).

The choice to be made is not easy. Does one choose simplicity, which may result in some persons getting benefits who should not? Or, does one choose precision, which may result in some persons not getting benefits who should (as is very definitely the current case).

APPENDIX

ALTERNATIVE METHODS OF COLLECTING INTEREST DUE FROM BORROWERS

1. Require the student to pay accruing interest periodically while in school. (Currently the most common manner of collecting interest on non-subsidized loans.)

(a) Greatly increases bookkeeping and collection costs for lenders.

(b) Works a hardship on students who have little or no income while in school. (Students who borrow the maximum their first three years of school will be required to meet a payment of over $130.00 *every three months* during both their junior and senior years.

(c) Will cause a rise in the default percentage proportionate to any rise in the number of non-subsidized loans because many students will not be able to afford these interest payments.

(d) Will cause an administrative problem for the guarantor as to whether or not to loan more funds to such defaulted students or simply "cut them off" while in school.

(e) If the number of non-subsidized loans is increased substantially, the attendant increase in the default liabilities may cause some states to consider the abandonment of their state program in favor of the no-cost federal alternative.

2. Defer the collection of interest until the repayment period, and add the accrued interest amount to the principal amount of the Payout Note. (Alternative currently available to lenders.)

(a) Many lenders resist the deferral of this income because they receive no interest on these additional "loans" of the interest money.

(b) The students monthly payments are greater, causing some hardship to many borrowers. Students borrowing the maximum $10,000 would find their payments increased from $116 to $143 monthly on a 10 year repayment basis. (Since lenders already are disenchanted with the length of the maximum repayment period, it appears unwise to consider increasing it.)

(c) The increased monthly payments and attendant borrower hardships expose the guarantor to greater default risk. (See 1–e above.)

(d) The average default claim could be increased 15% to 30% in un-reinsured interest charges. Some states do not guarantee interest, and many who do would not feel free to permit the deferral of such interest unless it would be reinsured. The imposition of any such a deferral requirement, without reinsurance of interest, would cause more state administrations to consider the abandonment of their guarantee agency in favor of the no-cost federal program.

3. Same as No. 2, but compounding the interest quarterly to give a lender some income on the deferred interest.

(a) Solves problem 2–a.

(b) Aggravates problems 2-b, 2-c, and 2-d.

(c) Many lenders would prefer the interest income to be collected quarterly to invest in ventures with a greater percentage yield than that offered on a student loan.

(d) The word "compound" appears to carry with it some emotional negativism. The consumer views his interest charges as increasing at an almost expotential rate. The less sophisticated lenders tend to equate the word "compound" with "complex."

(e) May complicate the "Truth in Lending" interest note disclosure requirements where an annual percentage rate is based on simple interest must be disclosed.

4. Require the student to pay accruing interest periodically while in school, but further charge the student a service fee to defray the lender's additional costs in making non-subsidized loans.

(a) Attempts to solve only the one problem indicated in 1-a. Does not give any relief to the rest of the problems listed in alternative No. 1.

(b) Complicates the Interim Note's "Truth in Lending" requirement because the service fee would have to be disclosed as a part of the annual percentage rate.

5. Discount the interest on the student's note. (Discounting is the practice of subtracting future interest due from the proceeds of the loan before disbursement.)

(a) In order to discount a note, the exact amount of time the loan will be outstanding needs to be known so that the exact projected interest amount can be computed. Projected maturities are inaccurate in more than 50% of the loans in the guaranteed loan program.

(b) The administrative costs attend to the interest adjustments caused by inaccurate projections of maturity dates would cause hardships for lenders. Students who drop out of school in a short period of time would be due refunds. Students who remain in school beyond the projected maturity date would owe more interest. Such additional interest would have to be collected by one of the other means described in this Appendix.

6. Require the government to pay the interest periodically on all accounts while the borrower is in school, with the amount of interest paid on non-subsidized loans to be returned (with or without interest) to the government after the student leaves school.

(a) Would have the advantage of treating all accounts identically while the borrowers are in school, thus eliminating the costly dual systems for the lenders. (For a little additional cost to the government, the statute could be written making such a feature retroactive at the option of the borrower and lender for the relatively small percentage of non-subsidized accounts currently outstanding.)

(b) Would give the lender current income for reinvestment in more profitable ventures or more student loans.

(c) Would have all the problems enumerated in 2-b, 2-c, and 2-d.

(d) The administrative means by which the money is returned to the government is of paramount importance:

(1) Amount of subsidy added to the amount of the Payout Note and subtracted from the next quarterly interest billing form—Not terribly difficult administratively, but some lenders might object to what amounts to another sizeable "loan" when the student enters repayment.

(2) Amount of subsidy added to the amount of the Payout Note and subtracted from the lender's quarterly interest billing form which immediately follows the student's final payment on the account—

(a) solves the lenders' potential objection to the above alternative,

(b) is more attractive to lender because of longer use of the money,

(c) ties up government funds for a longer period of time.

(3) Amount of subsidy added to the amount of the Payout Note and gradually repaid by subtracting equal portion from quarterly interest billing forms during the entire repayment period—Probably administratively too time-consuming for most lenders to accept.

Chapter III—Defaults: Their Prevention and Cure

I. STUDENT MOBILITY: HOW CAN WE LOCATE OUR BORROWERS?

Locating missing borrowers is virtually one of the most expensive collections function any guarantor must bear. Most experienced collectors will indicate that they usually can collect from most borrowers sooner or later once they are located, but the critical, and time-consuming problem, is to find them. The federal government possesses at least two excellent resources to locate the borrowers which owe them money on insured or reinsured student loans. The authors of this paper are not insensitive to the issues of individual privacy and confidentiality of data. However, it must be stated that the government agencies responsible for collecting student loans now are forced to pursue "missing" student borrowers in a manner which might be labelled by some persons as a far greater violation of the borrower's right to privacy than the mere revelation of a current address would entail. Although practiced with as much professionalism and delicacy as possible, the fine art of "skip-tracing" delinquent borrowers requires the involvement of conversations with friends, neighbors, relatives, and business associates. Not only does this take much time and incur great expense, it inevitably results in a degree of embarrassment for many borrowers which could have been avoided if the student loan guarantor had knowledge of the borrower's current whereabouts. The two federal sources which could assist in the location of missing borrowers are:

A. The Internal Revenue Service

The Internal Revenue Service could be helpful, but could not answer the entire problem because many of the student borrowers do not file income tax returns after leaving school for a period of time.

1. Last Known Address—Because of the lapse of time between the filing date of the return and the date the information is processed and filed by the I.R.S., this information would be obsolete in many cases, but still very helpful in others.

2. Name of Spouse—Locating females who subsequently have married after receiving an educational loan is very difficult. The new surname is often not known, and any telephone listings would be under the spouse's name.

3. Name of Employer—Even if a tentative address is received by a guarantor for a missing student, it often is impossible to reach him or her during the day (the guarantor's working hours) if the borrow is working. The guarantor often has to waste time identifying neighbors through "criss cross" reference books, and then calling the neighbors to see if they know where the borrower is employed.

B. The Social Security Administration

The Social Security Administration has more current (and therefore more valuable) data on its records. It also is a more logical source of information than the IRS if only because it is a branch of HEW, the Department responsible for the guaranteed loan functions. It seems grossly inefficient for the Commissioner of Education to spend huge sums of money to locate borrowers who owe HEW some money if the Commissioner of Social Security knows where they can be located. This is hardly a situation where the "fox" should be given a head start and a sporting chance merely for the excitement of the hunt.

There is another means by which the S.S.A. could be of assistance in recovering these government funds which could serve as an alternative to the S.S.A. providing current information on the missing borrowers. The S.S.A. could be directed to undertake the mailing of delinquency notices to the address of the borrower last known to them without divulging that address. This would prove a less effective alternative because it precludes any telephone follow-up to the letter which usually is necessary in many cases. However, it would motivate many missing borrowers to respond to their guarantors, and, therefore, it would result in a considerable savings in administrative expenses to H.E.W. for that reason.

II. BANKRUPTCY: IS IT AN EASY ALTERNATIVE TO REPAYMENT?

Guarantors are becoming increasingly alarmed at the number of students who are deliberately choosing bankruptcy upon graduation as an alternative to repaying their loan. There are many motivating causes:

1. Borrowers would like to get the debt off of their shoulders before they begin to work and accumulate assets.
2. There really isn't the social stigma there once was in filing bankruptcy. In fact, among the borrower's peers, often the contrary is true.
3. There really do not exist insurmountable credit restrictions on recent bankrupts. In fact, some creditors will show preferential treatment to recent bankrupts because of the knowledge that the prospective borrower can't file for bankruptcy again for several years.
4. Some borrowers just want to "rip off" the government.

Many guarantors believe that many student loan bankruptcy proceedings are truly unnecessary, and some appear premeditated. Since about 90% of all student loan bankruptcies occur within five years after the borrower leaves school, a five year "moratorium" on student loan dischargeability would be a most helpful legislative amendment. The "premeditated bankruptcy" case would be reluctant to file after the five-year period because a certain amount of assets would have been accumulated by that time. One could rely on the good judgment of the state and federal employees do not harass unnecessarily the true poverty cases during that period of time since their time always could be put to more efficient use attempting collecting from accounts where income and assets have been discovered.

If such an amendment is considered, care should be given in defining an "educational loan". Minimally, the amendment should include all loans covered under Title IV of the Higher Education Act of 1965 as amended. It probably should be expanded to include any loans funded by the governments of the United States, or an individual state, county, or municipality. Serious debate would have to be given as to whether to extend coverage to loans made by commercial financial institutions, private foundations, schools, relatives, etc.

III. LEVELS OF INDEBTEDNESS: ARE STUDENTS BEING FORCED TO MORTGAGE THEIR FUTURE?

There is no doubt that the $115 per month minimum payment from a student who borrows the aggregate statutory maximum will contribute to a higher default rate. However, as long as adequate alternative sources of aid are not available, such levels of borrowing will remain necessary for some students. And, as long as the private capital of the lending community is to be used instead of directly appropriated government funds, there is considerable doubt as to whether the current 10 year repayment period maximum should be extended. Many lenders already are disenchanted that the period is even that long. However, the manner in which aggregate undergraduate maximum of $7,500 is distributed among the individual academic years could also be in an item which is unnecessarily compounding the default problem. There are two issues to be considered:

1. What has the law done to our college seniors?

The yearly maximum under the law is $2.500. The maximum an undergraduate may borrow is $7,500. Many students will innocently borrow their full undergraduate entitlement in their freshman, sophomore, and junior years. "Cutting a student off" in his last year of school can result in two problems: (a) he may be forced to leave school and therefore not realize his full earning capacity; or, (b) he may develop and rationalize a bitter or negative attitude towards the program and the repayment of his loan.

2. The high risk year

A student's first year of post-secondary education is a testing ground for many students. Can they make it in college? Have they chosen the right vocation? Have they chosen the right school or were they a victim of a smooth recruiter? Many students don't make it beyond a few weeks of study.

Thousands leave school within weeks of the first day of class, with no greater skills or earning power, but now with a debt of up to $2,500 (instead of just $1,500) to show for their few weeks experience. Many are bitter; many won't pay their debts.

There are questions as to whether a first year maximum of $2,500 is really necessary. A freshman aspiring to a high-cost Ivy league school is usually dependent on his parents and such families usually have some things saved which will help defray expenses for at least one or two years. It is the later years that the financial squeeze is the greatest.

It is for these reasons that there might be some wisdom in considering a legislative amendment which would relate the yearly entitlement to the aggregate entitlement for undergraduates and still accommodate the acquisition of a baccalaureate degree. The ideal yearly entitlement schedule would take the form of graduated entitlements.

IV. PROMISSORY NOTE LIMITATIONS: ARE THEY INHIBITING EFFECTIVE COLLECTION EFFORTS?

There are a few restrictions placed on lenders in the writing of promissory notes which, if eliminated, could assist in the reduction of the default problem.

1. The "nine month" rule

The "nine month" rule prohibits any lender from executing a Note whose due date of the first payment is earlier than nine months from the date a student left school.

(a) Experienced collectors will indicate that the first payment is the critical payment in the collection process, and anything which inhibits the collection of that payment could cause the entire account to default.

(b) Although a student is permitted to "pre-pay" on his account at any time during the nine month grace period, such payments must be wholly deducted from the principal amount of the account if the student is eligible for interest benefits, and the government must be billed for interest on the declining balance. This provides for fantastic bookkeeping programs. But, for this reason, many lenders feel the necessity to discourage such payments (or they certainly don't encourage them), and it is just an extremely bad credit principal to discourage the payment of any money.

(c) Payout Notes cannot be written with the due date of the first payment any earlier than nine months after cessation of full-time study. This has at various times caused incredulity or anger from students who want to begin regular monthly payment two or three months after they finish school, and they want their copy of the note and the payment schedule at that time.

(d) Because many students graduate or otherwise terminate their education in June, the inflexible nine month restriction causes a huge portion of the lender's yearly collections work on account conversions to occur in a one month period (March). This overloads the lender, cuts down his efficiency, and causes him to do a less adequate job than would be possible had the work load been more evenly distributed.

For the reasons stated above, pertinent legislation should be amended to provide that the borrower and lender may mutually agree to begin repayment at any time after the borrower terminates his education (with any applicable interest benefits to cease one month before the due date of his first payment). Such period of time is not to exceed 12 months. For the borrower's protection, it should be indicated that this agreement must occur, and perhaps in writing, after the borrower finishes school, and not at the time he makes application for a loan. Further, it should be noted that a borrower's failure to comply with such an agreement to make his first payment before the end of the nine month grace period, is not an event of default. (If this amendment causes the nine month terminology to be removed from the Act, care should be exercised that it does not remove with it a guarantors authority to set his maximum grace period at nine months since not all guarantors allow a twelve month grace period.)

2. The "five year" rule

The "five year" rule prohibits any lender from executing a Payout Note whose schedule of payments is less than 60 months (unless the debt is under $1800).

(a) The "five year" rule has instilled bad relations with borrowers who want to repay their loans more rapidly than in five years, and who want their note and payment book (or schedule) to reflect their actual payments.

(b) The "five year" rule greatly complicates matters for lenders if he must write a Payout Note, and set up his computer records, on a 60 month basis at $45 per month while the student is paying $60 per month. In such a case, the student will "prepay" one full payment every three payments. After a few payments, he could lose contact with the lender for several months before the computer would indicate that the account was past due. This is a very undesirable situation.

(c) The longer repayment period required by the "five year" rule results in greater interest charges to the student than would a shorter repayment period requested by the student.

For the reasons stated above, pertinent legislation should be amended to provide that the borrower and lender may mutually agree to a repayment schedule of less than five years. For the borrower's protection, it should be indicated that this agreement (in writing?) must occur after the borrower finishes school, and not at the time he makes application for a loan.

Further, a lender should be prohibited from filing a default claim on such a note until he demonstrates that he has sent in writing to the borrower's last known address an offer to refinance the note to an alternative repayment schedule having payments not greater than would have been the payments had the original "total of payments" been financed over 60 months. Further, a default claim cannot be filed until the borrower has rejected in writing such an offer or has not responded to the offer for a period of 30 days.

V. DECLINE OF THE "THIRD PARTY LENDER": DOES IT AFFECT REPAYMENT?

A "third part lender" is a source of funds other than institution or firm marketing the product. In the guaranteed student loan program, any lender other than the school is a "third party lender".

A. How it affects the student's attitude toward repayment

1. First, it must be established that the student's attitude is of vital importance. The vast majority of the money spent by the Office of Education or guarantee agencies on collections is because of attitude problems. If students only defaulted because they couldn't make their scheduled monthly payments, the guarantor would simply have to maintain a minimal staff of "financial counselors" to estabilsh a new, lower monthly payment tailored to the borrower's financial situation. It could be as low as one dollar per month as a token of good faith until the financial situation might change. If there were no attitude problems, then all accounts would be paying their guarantor something. The "skip" problem would not exist.

2. An analogy can demonstrate the value of a third party lender in a commerical transaction. If a consumer bought a toaster from a department store which didn't work when brought home, and if he had charged that toaster on the store's charge account plan, he most likely would withhold payment until he received some type of satisfaction. If he had borrowed $20 from his neighbor until payday, his first inclination would be to repay his neighbor (it wasn't his fault the toaster didn't work), and settle his grievance with the department store separately.

3. The analogy can be transferred to the student who "charges" his education on his schools "deferred tuition" plan. If the student feels he did not receive an education worth the value placed on it by his school, if he feels that any part of his education was misrepresented by a school recruitment representative, he is unlikely to pay his deferred tuition charges (as he considers them) when they come due. On the other hand, if he had borrowed from a third party who is dis-

associated from his dissatisfaction with the school, he is more likely to honor his commitment to this lender.

B. How it affects the behavior of the lender

1. Potential conflicts of interest:

(a) Long experience has shown that proper collections work starts with the first contact with the borrower at the time the loan is made. Attitudes toward repayment begin here. Problems exist, however, when we ask our schools to reconcile the guarantor's need for a crisp, no nonsense credit interview impressing on the borrower the seriousness of the financial burden he is undertaking with the school's need to recruit the student. A vacuum cleaner salesman who dwells on the terms of his installment contract will lose sales, so the majority of his time with a customer is spent selling the product.

It would appear that a person responsible for recruiting students would have the same dilemma. What will the recruited do if the type of credit discussion that a student would get (and needs) from a bank might frighten off the prospect? The prime difference is clear. A recruiter has as his prime interest the enrolling of the prospective student. A bank officer has as his prime interest the ultimate collection of the account. "Big business" never will put the responsibility for credit and sales in the same hands.

(*b*) Experience, Facilities, and Staff—As one lender succinctly put it: "I'm not offering courses in zoology, so why should (———) University be a lender?" Stated another way, quality suffers if each should start meddling in each other's profession. Banks and other commercial lenders already have years of experience in the lending field. They have existing computer programs and other systems to handle credit transactions. A school financial aid office, which is usually overworked and understaffed already, cannot begin to match the commercial lending world's professionalism and efficiency. Lending is a small portion of a financial aid office's function. It is the entire life of an Installment Credit Division of a bank. This issue requires serious consideration in light of two conclusions drawn in a FY70 Office of Education study on the NDEA program: (1) "Attitudes toward borrowing appear highly correlated to the borrower's perception of the quality of the loan administration on the part of the institution"; and, (2) "The likelihood of paying on schedule and of being delinquent are closely related to the borrower's perception of administrative quality"

C. Past performances of schools as lenders

Before any serious consideration is given to expanding the participation of schools as lenders in the guaranteed student loan program, careful study should be given to the performance of colleges and universities in that role in the National Direct Student Loan Program. It has been a long time since the Office of Education has furnished summarized data on the school's yearly fiscal operations report to determine the percentage of NDSL accounts delinquent as compared to accounts due, both collected and uncollected. Conversations with various schools reveal this percentage to be many times that of the comparable statistics in the guaranteed student loan program. This should be verified or disputed by statistical proof in the immediate future.

D. Variations on Repayment Schedules

Being viewed with a wary eye by most guarantors, are some of the varying forms of repayment schedules being offered by schools who function as lenders. The two common variations are:

1. A Graduated Repayment Schedule—On such a schedule all payments are predetermined, with the early payments being smaller than the later program.

2. An Income-Contingent Repayment System—On a pure contingent schedule, there is no precomputed schedule, but a student merely pays a fixed percentage of his income. There are variations on the theme where a schedule is established, but portions of the payments can be deferred by the signing of another note to lower the net payment to a fixed percentage of income.

3. The school's point of view:

(a) The schools feel that it will reduce defaults because both the graduated repayment schedule and the income-contingent repayment system generally result in higher payments later in the schedule when the student is earning more.

(b) The more candid schools have admitted these features to be a gimmick to make the loans appear more appealing to students. Such features have been used as a recruitment "selling point", or as a means to make the replacing of gift aid with loan aid more palatable to students. "How else are we going to 'sell' these loans to students?" is a direct quote from one aid officer.

4. The guarantor's point of view:

(a) Guarantors are exceedingly concerned about the ramifications of the immediately preceding item in light of the discussion earlier in this chapter concerning the respective attitudes of the student and school which must occur or be formulated in the initial credit interview.

(b) Guarantors question the assertion about the lower monthly payments earlier in the schedule as being a deterrent to default. Promoters of these concepts emphasize a student's income as being the one variable which determines a student's ability to make payments on his loan and completely ignore a second important variable which is the other obligations which a student must pay from his income. While incomes do tend to increase after a student's graduation, it appears to many experienced student loan administrators that his personal financial responsibilities increase at even a greater rate over the same period of time. A single male may well be able to afford 10% to 15% of his annual income for the first year or two after graduation. Five years later, with a mortgage, two cars, a wife and two children, he can barely afford to spare 2% of his income. And, later research may prove that the false sense of affluence imagined because of the relatively low initial payments was a contributing factor in the student's eventual financial over-extension, perhaps leading to default. Many experience default collectors believe that it would be the most serious of mistakes to not seek the maximum dollars available from a student before other large amounts of credit obligations are accumulated. Such an approach does not necessarily work a hardship on the student, but only delays a significant escalation in his standard of living for a couple of years, thus preventing the hardship from coming later.

(c) Many of the schools appear to be looking forward eagerly to SALLIE MAE or another secondary market for purchasing this paper to generate more capital for making more loans. There is great cause to wonder about the marketability of these loans which are alien to the commercial lending institutions. The potential purchasers of such paper would be extremely limited because of the administrative complexities surrounding especially the income-contingent repayment system.

These variations are possible under the current legislation because any references to repayment specify only monthly payments, not "equal" monthly payments. Most guarantors feel uneasy because the law was in all other cases appearing to be written to accommodate the guarantee of loans which are patterned after the regular consumer loans made by banks, and there is doubt that other types of repayment schedules were in the minds of the legislative authors. The time has come to legitimatize such repayment variations by an expression of Congressional intent, or to eliminate their eligibility under the current Guaranteed Student Loan Program by inserting the word "equal" before legislative references to the student's monthly payments.

E. The philosophical considerations

1. Equal access to available funds:

Early in the program, it became obvious that certain wealthy colleges and universities and certain large proprietary schools had the financial resources to induce commercial lenders to give preferrential treatment to their students, to the disadvantage of students wanting to attend less affluent schools. In an attempt to prevent available funds from being siphoned off, the following regulation was published in the Federal Register (Sec. 177.6(e)(1)):

> "No points, premiums or additional interest of any kind may be paid to any eligible lender in order to secure funds for making loans or to induce such a lender to make loans to the students of a particular institution or any particular category of students, and except in circumstances approved by the Commissioner, notes

> (or any interest in notes) evidencing loans made by educational institutions shall not be sold or otherwise transferred at discount."

This regulation was promulgated in an attempt to insure that all prospective borrowers would have some measure of "equal access" to available loan funds at a bank. However, shortly after its promulgation, the purpose of this regulation was circumvented by a wholly legal maneuver which entailed merely changing the name of the lender of record in these school/lender partnerships. The name of the lender of record was changed from that of the commercial financial institution to that of the school. The money now was technically loaned by financial institution to the school rather than to the student. The points, premiums, and inducements were renamed service charges which were paid to the financial institution for doing the paperwork and collection. While such arrangements live within the letter of the regulation, it is questionable as to whether they live within the spirit of the regulation. The inescapable conclusion is that the student who is attending a school who will "borrow" the money from a commercial lender on his behalf has far greater access to that lender's money than the student who approaches the lender without his school's intercession. While the legal difference is apparent, is the net effect any different than the inequality of opportunity which existed prior to the regulation between two students if one attended a school which was willing to pay a lender a premium for making him a loan and the other student was attending a school which could not afford to do the same?

2. The student as a consumer:

The original concept of this program provided for "student consumerism" which placed the dollar in a student's hands before he shopped for a school, not vice versa. This idea of the student consumer with educational dollars to spend permitted him to make his choice of schools based upon his educational needs, not his financial needs. Under the student consumer concept, the educationally sound schools would prosper, the unsound would wither for lack of students. When a student's access to guaranteed loan funds is determined by his school's wealth, the syndrome of the "rich getting richer and the poor getting poorer" occurs. In this case it is the financially sound schools which prosper, and the financially struggling schools (regardless of academic excellence) will wither for lack of students.

3. Who pays the costs?

There is no question that this program has some features which makes it somewhat expensive to administer. Early in the history of the program, there were reports that some of the commercial lenders were charging borrowers "application fees" for processing their loans. Upon a determination by program officials that the interest rate received by lenders should be adequate remuneration for the lender, and with a further commitment in the form of a changeable "special allowance", the following regulation was published in the Federal Register (Sec. 177(e)(2)):

> "In no event may the costs of making a loan under this part (except those specifically provided for in this section) be passed on (in the form of higher tuition charges or otherwise) to the borrower."

Obviously, schools functioning as lenders have considerable administrative costs associated with this program. It is reasonable to suppose that their costs are even greater than those of a commercial lender who already has in operation certain installment loan procedures and operations which they might employ in the student loan program without having to hire additional staff, write new computer programs, etc. Commercial lenders are expected to adminster this program out of the difference between their "cost of money" and the return on the loan. However, the school's "cost of money" as they borrow it is usually (or nearly) equal to the interest return on the loan. It becomes, therefore, almost inevitable that the charges of program administration will be passed on to students who borrow from schools rather than financial institutions, especially in the case of students attending tuition-dependent schools, without endowments, alumni contribution, government subsidies, etc.

4. The Universal Eligibility Problem:

When the original guaranteed student loan legislation was constructed, the Congress established parameters within which the state guarantee agencies would have to establish their individual eligibility criteria. It should surprise no one that as each state deliberated separately, differences would occur which were still wholly acceptable under the law.

The student group most affected by the limited state autonomy was the home study student who was not considered an eligible borrower in several states. Understandably, the home study schools sought lender status to bring the benefits of the program to their students. Quite another matter, however, are the large universities and vocational schools whose students have eligibility in every state of the union, but who sought "lender status" for recruitment leverage or other purposes.

However, if a decision were ever made to phase out the schools who are lenders, the eligibility of their students would have to be assured from another source. The Congress could accomplish this by re-examining and modifying the perimeters within which they will permit a state to function, giving the state sufficient time to amend its legislation or make the decision to reject the changes and allow the Federal program to come in and take over.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., June 5, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
Education and Labor Committee,
Washington, D.C.

DEAR MR. O'HARA: I believe the enclosed synopsis of the student loan program from the point of view of a lending institution will be of interest to you. It was prepared by Mr. Doyle D. Ream, Vice President, and Mr. Toby Day, Installment Loan Department, of the First National Bank of the Black Hills, Rapid City, South Dakota, at the request of the Denver Regional Office of Education.

Your consideration of this matter is appreciated.

With kindest personal regards, I am

Sincerely,

JAMES ABDNOR,
Member of Congress.

Enclosure.

NATIONAL BANK OF THE BLACK HILLS,
Rapid City, S. Dak.

STUDENT LOANS SYNOPSIS

At present the processing of default student loans is a rigorous and highly ridiculous procedure. The lending institution is required to exhaust all collection devices for the first 60 days the account is delinquent. This is a reasonable and expected requirement. Once this first 60-day delinquency period is satisfied, the ludicrous portion of the default program appears. The lender then may file for collection assistance through the Office of Education. This office sends a telegram to the borrower reminding him of this delinquency and urging repayment. At this point the borrower is in the 90-day or over past due category.

We feel that this period of time is highly unusual for an account delinquency. However, we are not as yet even at the point where filing for the federally insured loan is ready to be processed. An additional 30-day waiting period must be fulfilled. At this date (120 days after first date of delinquency) we are finally able to submit a claim to the Office of Education, for the amount due.

The problems concerning these claims do not end here; however, we are then denied the interest that has accumulated from the date of delinquency to the date of payment from the government.

The amount of time involved in processing the afore mentioned claims, in addition to the denying of additional interest due to the lending institutions for the period of time involved in processing the claim is a highly unusual situation from the lending institutions' point of view.

The lending institutions provide this service at a very low rate of interest (we get a subsidy of 7%) and we feel that the Office of Education should diligently review the Claims Section of this program.

U.S. SENATE,
Washington, D.C., July 9, 1974.

Hon. JAMES G. O'HARA, M.C.
Chairman, Special Subcommittee on Education,
House Committee on Education and Labor,
Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is a copy of a letter and "needs analysis system" formula from Donald J. Mullen, Director of the Financial Aid Office at the University of Montana.

I thought the information might be of interest in connection with your subcommittee's hearings on Federal student aid programs.

Best wishes.

Very truly yours,

LEE METCALF.

Enclosure.

UNIVERSITY OF MONTANA,
Missoula, Mont., June 20, 1974.

U.S. COMMISSIONER OF HIGHER EDUCATION,
Department of Health, Education & Welfare,
U.S. Office of Education,
Washington, D.C.

DEAR SIR: Please find enclosed for your consideration and approval a proposed method for determining the reasonable ability of a student's family to contribute toward his/her postsecondary expenses as provided by law.

This proposed "needs analysis system" is supported and endorsed by the postsecondary community in Montana, having been approved unanimously by the Montana Association of Financial Aid Administrators, the Commissioner of Higher Education, and the Governor, and is intended for use by all post secondary institutions in the state for the following federal programs:

Supplemental Educational Opportunity Grants.
College Work-Study.
National Direct Student Loans.
Federally Insured Student Loans.

As you are aware, the authorizing legislation (P.L. 92-318) for these programs requires the institutional financial aid officer to calculate the amount of family resources "which should reasonably be available" for the student's educational expenses. It is our considered opinion that this proposed "system" meets all the requirements of law. This proposed "system" does consider the income and assets of the student's parents and the contribution inputed therefrom is, again, in our considered opinion, reasonable. This particular "system" which we are submitting is intended only for the purpose of computing a parental contribution. We will additionally consider income, assets, and other benefits of the student and his/her spouse where applicable in determining the student's ultimate financial need.

We respectfully request that you give this proposal your prompt consideration as we are hopeful of using it with our 1974-75 student aid applications.

Thank you.

Sincerely,

DONALD J. MULLEN,
Director, Financial Aid Office.

Enclosure.

PROPOSED NEED ANALYSIS SYSTEM FOR DEPENDENT STUDENTS FOR USE BY ALL POST SECONDARY INSTITUTIONS IN MONTANA

+Adjusted gross income before deductions—includes all taxable and nontaxable income.
−Standard Federal Income Tax.
−Standard State Income Tax.
−F.I.C.A.—5.85 of gross income up to $12.600=$737.10.
−Retirement—5.75 of gross income. Applies to income from salaries and wages only.
−Group Health Insurance—$350 per year.

—Working Spouse Offset.[1]
—Extraordinary Medical Expenses.[2]
—Emergency Expenses.[3]
—Other Dependents.[4]
—Other Educational Expenses.[5]
=Effective Income.

INCOME SUPPLEMENT FROM ASSETS

O Ignore equity on family residence.
+Equity in other real estate.
+Business or farm—½ of net worth above $25,000.
+Cash and bank accounts.
+Net value of other investments.
=Net worth X Table D (CSS).
+$1500 if residence is fully owned (no mortgage payments).
=Income Supplement—show no negative income supplement.
+Effective Income.
=Adjusted Effective Income X Table E[6] (CSS).
= Parents Contribution for applicant.

WHERE MORE THAN ONE DEPENDENT IS IN COLLEGE

If parents' contribution as computed above is $950 or less, presume the same amount for each unless doing so would be obviously unreasonable.

If parents' contribution above is more than $950, presume a contribution of $950 plus that portion above $950 divided by the number of students.

Not over $1,000	25 percent
$1,000 to $2,000	$250+29 percent of all over $1,000
$2,000 to $,3000	$540+34 percent of all over $2,000
$3,000 to $4,000	$880+40 percent of all over $3,000
$4,000 to $5,000	$1,280+47 percent of al lover $4,000
$5,000 to $6,000	$1,750+55 percent of all over $5,000
$6,000 or more	$2, 300+55 percent of all over $6,000

N.B. Items explained by footnotes 1–6 are identical to CSS

THE BOARD OF TRUSTEES OF MICHIGAN STATE UNIVERSITY,
Bloomfield Hills, Mich., August 26, 1974.

Hon. PERRY BULLARD,
State Representative, 53d District,
State Capitol,
Lansing, Mich.

DEAR REPRESENTATIVE BULLARD: This is in response to your July 29 letter inviting my views on income—contingency student loans as outlined in House Resolution 279.

I am unalterably opposed to such schemes to develop lifetime indenture plans in the guise of helping students meet the increasing costs of higher education. Indeed, I fail to see how anyone who subscribes to the philosophy of higher education as one of our best possible societal investments—and I do subscribe to that philosophy—can concurrently support proposals to place a greater proportion of educational costs on the student and his or her family. No amount of window dressing can disguise the fact that that is precisely the ultimate effect of these "buy now—pay later" approaches to the problem.

It seems to me that if the objective is to minimize the economic roadblocks to higher education, then the easiest and least costly way to realize that objective is to provide direct appropriations to the institutions ot replace the money which they now are found to raise by assessing ever-increasing fees on their students. Everyone who is familiar with government knows that each additional layer of administration costs money. I cannot envision any sort of "buy now—pay later" setup which would not include a very substantial and costly administrative structure. This extra increment of administrative cost would be completely unnecessary if the state would follow the direct institutional subsidy approach as advocated above. It has always been my personal position that public higher education should be tuition-free for resident students and that this objective can best be realized by supporting our public colleges and universities at a level which would not require them to charge tuition to Michigan students.

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[1] Working Spouse Offset: 50% of first $2,000+25% of the balance of the lesser income to a maximum of $1,500.

[2] That amount in excess of 5% of adjusted gross income.

[3] Alimony/Child Support payments: funeral expenses; legal fees, job related moving expenses; sewer, street and water assessment; natural disasters not covered by insurance; nursing home (if more than $750/yr. and not listed under "other dependents.").

[4] Other Dependents: Persons other than children being supported by the students parents and claimed as Federal Income Tax Exemptions. Allow $750 each.

[5] Actual educational expenses for either parent or any dependent children.

[6] This table reflects the following taxation rates on discretionary income:

Your Committee undoubtedly will receive testimony from qualified experts who can attest to the negative motivational effect of the prospect of massive borrowing to meet educational expenses upon young people from low and middle income families. There is no question in my mind that our state and our nation will lose the potential contributions of hundreds of thousands of such people unless our policies are changed to make higher education a *more* realizable dream—not an economic nightmare.

In closing, let me simply underscore the words of Congressman James O'Hara, Chairman of the Special Subcommittee on Education of the Committee on Labor and Education of the U.S. House of Representatives. He described the various contingency loan programs as schemes by the rich to spend the money of the middle class to help the poor. He may have been too charitable. I feel that these schemes by the rich spend the money of both the poor and the middle class to help the rich.

I will be happy to elaborate on these views in your formal hearings this fall.

Sincerely,

DON STEVENS,
MSU Trustee.

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STUDENT FINANCIAL ASSISTANCE
(Graduate Programs, State Programs, and Grants)

HEARINGS
BEFORE THE
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE
COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
NINETY-THIRD CONGRESS
SECOND SESSION

PART 4—Graduate Programs
PART 5—State Programs
PART 6—Grants

HEARINGS HELD IN WASHINGTON, D.C.
JUNE 4, 6, 10, 11, 12, AND 13, 1974

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*

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STUDENT FINANCIAL ASSISTANCE—PART 4

(Graduate Programs)

TUESDAY, JUNE 4, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman) presiding.

Present: Representatives O'Hara and Dellenback.

Staff members present: Jim Harrison, staff director and Elnora Teets, clerk.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

This morning we will carry out phase 4 of the current hearings on student assistance programs.

Our focus today will be on programs of assistance to graduate students. It would, I think, be helpful if we put the text of those parts of the Higher Education Act, and related laws which relate to graduate student assistance programs in the hearing record at this point.

TITLE IX—GRADUATE PROGRAMS

Part B—Graduate Fellowships for Careers in Postsecondary Education

APPROPRIATIONS AUTHORIZED

Sec. 921. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this part.

(20 U.S.C. 1134d) Enacted June 30, 1972, P.L. 92-318, sec. 181(a), 86 Stat. 306.

NUMBER OF FELLOWSHIPS

Sec. 922. (a) During the fiscal year ending June 30, 1973, and each of the two succeeding fiscal years, the Commissioner is authorized to award not to exceed seven thousand five hundred fellowships to be used for study in graduate programs at institutions of higher education. Such fellowships may be awarded for such period of study as the Commissioner may determine, but not in excess of three academic years, except (1) that where a fellowship holder pursues his studies as a regularly enrolled student at the institution during periods outside the regular sessions of the graduate program of the institution, a fellowship may be awarded for a period not in excess of three calendar years, and (2) that the Commissioner may provide by regulation for the granting of such fellowships for a period of study not to exceed one academic year (or one calendar year in the case of fellowships to which clause (1) applies) in addition to the maximum period otherwise applicable, under special circumstances in which the purposes of this part would most effectively be served thereby.

(b) In addition to the number of fellowships authorized to be awarded by subsection (a) of this section, the Commissioner is authorized to award fellowships equal to the number previously awarded during any fiscal year under this section but vacated prior to the end of the period for which they were awarded; except that each fellowship awarded under this subsection shall be for such period of study, not in excess of the remainder of the period for which the fellowship which it replaces was awarded, as the Commissioner may determine.

(20 U.S.C. 1134e) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 306.

AWARD OF FELLOWSHIPS AND APPROVAL OF INSTITUTIONS

SEC. 923. (a) Of the total number of fellowships authorized by section 922(a) to be awarded during a fiscal year (1) not less than one-third shall be awarded to individuals accepted for study in graduate programs approved by the Commissioner under this section, and (2) the remainder shall be awarded on such bases as he may determine, subject to the provisions of subsection (c). The Commissioner shall approve a graduate program of an institution of higher education only upon application by the institution and only upon his finding that the application contains satisfactory assurance that the institution will provide special orientation and practical experiences designed to prepare its fellowship recipients for academic careers at some level of education beyond the high school.

(b) In determining priorities and procedures for the award of fellowships under this section, the Commissioner shall—

(1) take into account present and projected needs for highly trained teachers in all areas of education beyond the high school,

(2) give special attention to those institutions which have developed new doctoral-level programs especially tailored to prepare classroom teachers,

(3) consider the need to prepare a larger number of teachers and other academic leaders from minority groups, but nothing contained in this clause shall be interpreted to require any educational institution to grant preference or disparate treatment to the members of one minority group on account of an imbalance which may exist with respect to the total number or percentage of persons of that group participating in or receiving the benefits of this program, in comparison with the total number or percentage of persons of that group in any community, State, section, or other area,

(4) assure that at least one-half of all new fellowship recipients have demonstrated their competence outside of a higher education setting for at least two years subsequent to the completion of their undergraduate studies,

(5) allow a fellowship recipient to interrupt his studies for up to one year for the purpose of work, travel, or independent study away from the campus, except that no stipend or travel expenses may be paid for such period, and

(6) seek to achieve a reasonably equitable geographical distribution of graduate programs approved under this section, based upon such factors as student enrollments in institutions of higher education and population.

(c) Recipients of fellowships under this part shall be persons who are interested in an academic career in educational programs beyond the high school level and are pursuing, or intend to pursue, a course of study leading to a degree of doctor of philosophy, doctor of arts, or an equivalent degree.

(d) No fellowship shall be awarded under this part for study at a school or department of divinity.

(20 U.S.C. 1134f) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 306, 307.

FELLOWSHIP STIPENDS

SEC. 924. (a) The Commissioner shall pay to persons awarded fellowships under this part such stipends (including such allowances for subsistence and other expenses for such persons and their dependents) as he may determine to be consistent with prevailing practices under comparable federally supported programs.

(b) The Commissioner shall (in addition to the stipends paid to persons under subsection (a)) pay to the institution of higher education at which such person is pursuing his course of study, in lieu of tuition charged such person, such amounts as the Commissioner may determine to be consistent with prevailing practices under comparable federally supported programs, except that such amount shall not exceed $4,000 per academic year for any such person.

(20 U.S.C. 1134g) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 307.

FELLOWSHIP CONDITIONS

SEC. 925. (a) A person awarded a fellowship under the provisions of this part shall continue to receive payments provided in section 404 [10] only during such periods as the Commissioner finds that he is maintaining satisfactory proficiency in, and devoting essentially full time to, study or research in the field in which such fellowship was awarded, in an institution of higher education, and is not engaging in gainful employment other than part-time employment by such institution in teaching, research, or similar activities, approved by the Commissioner.

(b) The Commissioner is authorized to require reports containing such information in such form and to be filed at such times as he determines necessary from any person awarded a fellowship under the provisions of this part. Such reports shall be accompanied by a certificate from an appropriate official at the institution of higher education, library, archive, or other research center approved by the Commissioner, stating that such person is making satisfactory progress in, and is devoting essentially full time to, the program for which the fellowship was awarded.

(20 U.S.C. 1134h) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 307, 308.

PART C—PUBLIC SERVICE FELLOWSHIP

AWARD OF PUBLIC SERVICE FELLOWSHIPS

SEC. 941. (a) During the fiscal year ending June 30, 1973, and each of the two succeeding fiscal years, the Commissioner is authorized to award not to exceed five hundred fellowships in accordance with the provisions of this part for graduate or professional study for persons who plan to pursue a career in public service. Such fellowships shall be awarded for such periods as the Commissioner may determine but not to exceed three academic years

(b) There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this part.

(20 U.S.C. 1134i) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 308.

ALLOCATION OF FELLOWSHIPS

SEC. 942. The Commissioner shall allocate fellowships under this part among institutions of higher education with programs approved under the provisions of this part for the use of individuals accepted into such programs, in such manner and according to such plan as will insofar as practicable—

(1) provide an equitable distribution of such fellowships throughout the United States; and

(2) attract recent college graduates to pursue a career in public service.

(20 U.S.C. 1134j) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 308.

APPROVAL OF PROGRAMS

SEC. 943. The Commissioner shall approve a graduate or professional program of an institution of higher education only upon application by the institution and only upon his findings—

(1) that such program has as a principal or significant objective the education of persons for the public service, or the education of persons in a profession or vocation for whose practioners there is a significant continuing need in the public service as determined by the Commissioner after such consultation with other agencies as may be appropriate;

(2) that such program is in effect and of high quality, or can readily be put into effect and may reasonably be expected to be of high quality;

(3) that the application describes the relation of such program to any program, activity, research, or development set forth by the applicant in an application, if any, submitted pursuant to section 901(a)(2); and

(4) that the application contains satisfactory assurance that (A) the institution will recommend to the Commissioner, for the award of fellowships under this part, for study in such program, only persons of superior

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[10] Apparent error. Should be section 924.

promise who have demonstrated to the satisfaction of the institution a serious intent to enter the public service upon completing the program, and (B) the institution will make reasonable continuing efforts to encourage recipients of fellowships under this part, enrolled in such programs, to enter the public service upon completing the program.

(20 U.S.C. 1134k) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 308, 309.

STIPENDS

SEC. 944. (a) The Commissioner shall pay to persons awarded fellowships under this part such stipends (including such allowances for subsistence and other expenses for such persons and their dependent) as he may determine to be consistent with prevailing practices under comparable federally supported programs.

(b) The Commissioner shall (in addition to the stipends paid to persons under subsection (a)) pay to the institution of higher education at which such person is pursuing his course of study such amount as the Commissioner may determine to be consistent with prevailing practices under comparable federally supported programs.

(20 U.S.C. 1134l) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 309.

FELLOWSHIP CONDITIONS

SEC. 945. (a) A person awarded a fellowship under the provisions of this part shall continue to receive the payments provided in this part only during such periods as the Commissioner finds that he is maintaining satisfactory proficiency and devoting full time to study or research in the field in which such fellowship was awarded in an institution of higher education, and is not engaging in gainful employment other than employment approved by the Commissioner by or pursuant to regulation.

(b) The Commissioner is authorized to require reports containing such information in such form and to be filed at such times as he determines necessary from any person awarded a fellowship under the provisions of this part. Such reports shall be accompanied by a certificate from an appropriate official at the institution of higher education, library, archive, or other research center approved by the Commissioner, stating that such person is making satisfactory progress in, and is devoting essentially full time to, the program for which the fellowship was awarded.

(c) No fellowship shall be awarded under this part for study at a school or department of divinity.

(20 U.S.C. 1134m) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 309.

PART D—FELLOWSHIPS FOR OTHER PURPOSES

PROGRAM AUTHORIZED

SEC. 961. (a) It is the purpose of this part to provide fellowships—

(1) to assist graduate students of exceptional ability who demonstrate a financial need for advanced study in domestic mining and mineral and mineral fuel conservation including oil, gas, coal, oil shale, and uranium; and

(2) for persons of ability from disadvantaged backgrounds, as determined by the Commissioner, undertaking graduate or professional study.

The demonstration of financial need shall be determined in accordance with regulations prescribed by the Commissioner.

(b)(1) The Commissioner is authorized to award under the provisions of this part not to exceed five hundred fellowships for the fiscal year ending June 30, 1973, and for each of the two succeeding fiscal years. Appropriations made pursuant to section 965 for fellowships awarded under clause (2) of subsection (a) of this section may not exceed $1,000,000 in any fiscal year.

(2) In addition to the number of fellowships authorized to be awarded under paragraph (1), the Commissioner is authorized to award fellowships equal to the number previously awarded during any fiscal year under this part but vacated prior to the end of the period for which they were awarded except that each fellowship awarded under this paragraph shall be for such period of graduate or professional work or research not in excess of the remainder of the period for which the fellowship it replaces was awarded as the Commissioner may determine.

(c) Fellowships awarded under this part shall be for graduate and professional study leading to an advanced degree or research incident to the presentation of a doctoral dissertation. Such fellowships may be awarded for graduate and professional study and research at any institution of higher education or any other research center approved for such purpose by the Commissioner. Such fellowships shall be awarded for such periods as the Commissioner may determine but not to exceed three years.

(20 U.S.C. 1134n) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 309, 310.

AWARD OF FELLOWSHIPS

SEC. 962. Recipients of fellowships under this part shall be—

(1) persons who have been accepted by an institution of higher education for graduate study leading to an advanced degree or for a professional degree, or

(2) persons who have completed all course work required for granting of a doctoral degree or an equivalent degree (except such course work credited on the dissertation) and comprehensive examinations where appropriate, and whose doctoral dissertation (or other equivalent dissertation) proposal has been approved by appropriate officials of an institution of higher education.

(20 U.S.C. 1134o) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 310.

STIPENDS AND INSTITUTION OF HIGHER EDUCATION ALLOWANCES

SEC. 963. (a) The Commissioner shall pay to persons awarded fellowships under this part such stipends as he may determine to be consistent with prevailing practices under comparable federally supported programs, except that the stipend shall not be less than $2,800 for each academic year study. An additional amount of $300 for each such year shall be paid to each such person on account of each of his dependents, not to exceed the amount of $1,500 per academic year.

(b) In addition to the amount paid to persons pursuant to subsection (a) there shall be paid to the institution of higher education at which each such person is pursuing his course of study an amount equal to 150 per centum of the amount paid to such person, less the amount paid on account of each of such person's dependents, to such person, less any amount charged such person for tuition.

(c) The Commissioner shall reimburse any person awarded a fellowship pursuant to this part for actual and necessary traveling expenses of such person and his dependents from his ordinary place of residence to the institution of higher education, library, archive, or other research center where he will pursue his studies under such fellowship, and to return to such residence.

(20 U.S.C. 1134p) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 310.

FELLOWSHIP CONDITIONS

SEC. 964. (a) A person awarded a fellowship under the provisions of this part shall continue to receive the payments provided in this part only during such periods as the Commissioner finds that he is maintaining satisfactory proficiency and devoting full time to study or research in the field in which such fellowship was awarded in an institution of higher education, and is not engaging in gainful employment other than employment approved by the Commissioner by or pursuant to regulation.

(b) The Commissioner is authorized to require reports containing such information in such form and to be filed at such times as he determines necessary from any person awarded a fellowship under the provisions of this part. Such reports shall be accompanied by a certificate from an appropriate official at the institution of higher education, library, archive, or other research center approved by the Commissioner, stating that such person is making satisfactory progress in, and is devoting essentially full time to, the program for which the fellowship was awarded.

(c) No fellowship shall be awarded under this title for study at a school or department of divinity.

(20 U.S.C. 1134q) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 311.

APPROPRIATIONS AUTHORIZED

SEC. 965. There are authorized to be appropriated such sums as may be necessary for the purposes of this part.

(20 U.S.C. 1134r) Enacted June 23, 1972, P.L. 92–318, sec. 181(a), 86 Stat. 311.

Public Law 93-343, 93d Congress, H.R. 15296, July 10, 1974

AN ACT To authorize the Commissioner of Education to carry out a program to assist persons from disadvantaged backgrounds to undertake training for the legal profession

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That funds appropriated for part D of title IX of the Higher Education Act of 1965 by the Department of Labor and Health, Education, and Welfare, and Related Agencies Appropriations Act for the fiscal year ending June 30, 1974 (Public Law 93–192), shall remain available for obligation through September 15, 1974, for the purpose of supporting a program to assist persons from disadvantaged backgrounds to prepare and be educated for the legal profession.

SEC. 2. In order to carry out the program authorized by this Act, the Commissioner of Education is authorized to make grants to private nonprofit organizations representative of legal education and the legal profession for the purpose of (1) selecting and counseling such persons; (2) paying stipends to such persons and in such amounts as the Commissioner may determine to be appropriate; and (3) paying for any administrative expenses incurred in the carrying out of activities authorized by this Act.

SEC. 3. The activities authorized by this Act may be carried out without regard to the requirements and limitations set forth in sections 961, 962, and 963 of part D of title IX of the Higher Education Act of 1965.

Approved July 10, 1974.

Mr. O'HARA. We have invited members of the National Board on Graduate Education to appear before us and to comment on issues relating to financial assistance for graduate students.

The witnesses are Dr. Charles V. Kidd, executive secretary of the Association of American Universities; Dr. David Breneman of the National Research Council; Dr. Richard Lyman, president of Stanford University; and Dr. Boyd Page of the Council of Graduate Schools.

Each witness will make a brief presentation and we can then question the panel as a group.

In addition to the statements to be made, we have circulated among the members of the subcommittee copies of the Board's January 1974 publication, "Federal Policy Alternatives Toward Graduate Education," of which chapter 4 is particularly focused on our immediate area of concern.

I shall ask unanimous consent that appropriate excerpts from that report be made a part of today's hearing record.

[The documents referred to appear at pp. 39–67.]

Mr. O'HARA. Additional copies of the report are in the members' folders.

So, with that, gentlemen, please proceed with your testimony in whatever manner you wish.

STATEMENTS OF CHARLES V. KIDD, EXECUTIVE SECRETARY, ASSOCIATION OF AMERICAN UNIVERSITIES, ACCOMPANIED BY DAVID BRENEMAN, NATIONAL RESEARCH COUNCIL; RICHARD LYMAN, PRESIDENT, STANFORD UNIVERSITY; AND BOYD PAGE, COUNCIL OF GRADUATE SCHOOLS

Dr. KIDD. Thank you, Mr. Chairman. I am Charles Kidd, executive secretary of the Association of American Universities.

This association is composed of 46 public and private universities in the United States, which are predominant in graduate education and research. They grant about two-thirds of the Ph. D. degrees in the country and conduct about two-thirds of the federally supported academic research and development programs.

With me are Dr. David Breneman, staff director of the National Board on Graduate Education. He wrote a landmark thesis on graduate education at Berkeley, was a professor at Amherst before he took his present position, and will be a senior fellow at the Brookings Institution continuing his study of graduate education.

Dr. Lyman, on my right, has had a long and close association with graduate education, first as a professor of history and then as a provost and vice president of Stanford University and now as president of that institution. He is the chairman-designate of the Council on Federal Relations of the Association of American Universities.

Finally, Dr. Boyd Page of the Council of Graduate Schools in the United States has been a professor at Ohio State, Berkeley, Texas A. & M., and was later vice president for research and dean of the graduate college at Iowa State. He was chairman of the group which prepared the recent report, "Scholarships for Society."

Now, on behalf of the group I want to say we appreciate the opportunity to discuss graduate education and the support of students. The subject has been relatively neglected over the last 2 or 3 years, and this committee is certainly the prime place for discussion of these issues.

I would like to make simply one point in opening the discussion, Mr. Chairman, and that is that the rationale for Federal support of graduate students has shifted markedly over the last 3 or 4 years.

During the sixties, general pervasive, continuing shortages of highly trained manpower were the prime reason for Federal support. Now that has changed, and as we proceed you will see that the rationale is no longer general continuing prospective shortages but rather specific shortages for specific important national fields, the removal of discrimination in admission to graduate schools, and the provision of assurance of attendance at graduate schools by the thin top layer of people of outstanding ability. This is a very marked difference from the situation that existed several years ago.

Now, I would like to ask, with permission of the committee, that President Lyman provide the background against which we will discuss the amendments of the act.

Mr. O'Hara. Please do.

[Dr. Kidd's statement follows:]

Prepared Statement of Charles V. Kidd, Executive Secretary, Association of American Universities

Mr. Chairman and members of the committee. I am Charles Kidd, executive secretary of the Association of American Universities. The association is composed of 46 public and private universities in the United States which are preeminent in graduate education and research. They grant about two-thirds of all doctoral degrees and conduct about two-thirds of the federally sponsored academic research and development.

With me are three persons who are well acquainted with Federal support for graduate education from various points of view.

(1) David Breneman is Staff Director of the National Board on Graduate Education, and is the principal author of the recent report, *Federal Policy Alternative Towards Graduate Education*. It has been made available to the Committee.

(2) Richard Lyman of Stanford University has had a long and close association with graduate education as a professor and now as the president of a major university.

(3) Boyd Page of the Council of Graduate Schools in the United States has been a teacher, a dean of graduate studies and is now the president of the organization which includes every substantial graduate school in the country. He was chairman of the group which prepared the recent report, *Scholarships for Society*.

On behalf of the group, I want to say that we appreciate the interest of the Committee in graduate education and its willingness to discuss some relatively neglected but important issues. We believe it important to have more intensive public discussion of the issues, and that this Committee is the most important single point for discussion.

One point ought to be made directly at the outset. That is, Federal support for graduate education is no longer predicated on general, continuing shortages of all kinds of highly trained manpower. The "shortage" argument has been replaced by a more thoughtful and realistic assessment of the place of graduate education in our national life and of the role of the Federal government in supporting graduate education. Now the more urgent and widely recognized goals are to ensure equality of access, to adapt graduate education to changing needs, to recognize the intellectual excellence of relatively few talented students and to meet specifically identified shortages. The shift in thinking, derived from 10 national reports, is spelled out in "Graduate Education: The New Debate", an article which I have made available to the Committee.

President Lyman is prepared to present the basic rationale for Federal support in greater detail.

I. CHARACTERISTICS OF EXISTING FEDERAL PROGRAMS FOR SUPPORT OF GRADUATE EDUCATION

The role that the graduate education support provisions of the Education Amendments of 1972—the specific graduate education provisions of Title IX of the Higher Education Act of 1965 plus the more general student aid provisions of Title IV—should play can be adequately assessed only in the light of the entire set of Federal programs with similar purposes. While the total system is scattered and diverse, its major characteristics can be briefly summarized. One salient feature of the Federal machinery is mission orientation. That is, graduate students are supported not by the Federal government as an abstraction, but by individual agencies, each charged by Congress with a set of specific tasks. The mission of OE in supporting graduate students has been defined primarily in terms of function—preparation of teachers rather than in terms of field. It has authority to provide graduate fellowships in all fields, provided the recipients are headed for academic careers. (It has additional authority to provide fellowships for other special purposes, but this additional authority has never been funded—or has been funded on a very skimpy scale.) N.I.H. supports students in the health and biological area. NSF supports graduate students in the basic sciences and in areas of research important to national needs. NASA supported students for the space effort, and AEC supported them in the nuclear sciences and engineering.

This mission orientation has strengths and weaknesses. The main strength is that support for graduate education tends to be linked to high priority national needs, and hence to adopt and shift as national needs change. The main weakness is that there is no place in either the executive or the legislative branch where graduate education and research can be viewed as an entity. Therefore, there is no consistent government-wide policy. A second weakness is that the existing system pays no attention to the long range capacity of graduate schools to continue to produce students of high quality over the long run in the face of rapidly shifting levels of Federal support. This is a topic to which we shall revert.

Another characteristic of the Federal system is that a high proportion of graduate student support is linked to the $22 billion in Federal research funds that currently flow to universities. This is a clear strength because graduate work of high quality must be so linked in most fields. However, the research relationship tends to make the Federal support system less than fully responsive to needs for change. For example, as others will testify, it appears that a much higher proportion of those with advanced degrees will in the future have careers in non-academic institutions and in jobs other than research. The Federal support system does not tend to induce the changes in graduate education that will most certainly be required to adapt to this new situation.

In terms of devices for support of graduate students, there are varied approaches. Fellowships come first to mind—direct grants to students who then study in fields for which the fellowships are granted. These fellowships are generally, but not always, granted directly to individuals who then decide where to study. The level of study extends from the first year of graduate work through post-doctoral studies. Then there are training grants, developed most extensively by NIH, which provide a package including funds for research, research equipment, teaching supplies and faculty salaries. Finally, many graduate students work as research assistants on research financed by Federal grants and contracts. In 1974, about four times as many students (about 24,000) will earn support as research assistants as receive fellowships (about 6,000). Veterans' benefits are an important source of support for graduate students. Finally the student assistance programs administered by OE primarily for undergraduates are also available (except for BOG's, SSIG's, and SEOG's) to graduate students.

In terms of agencies, about 80 percent (about $400 million out of a total of $500 million) of Federal funds for support of graduate students in 1974 will come from two agencies—the Veterans Administration and the National Institutes of Health. (See Table H–10 from Special Analysis H. *Federal Education Programs* from *The Budget for Fiscal Year 1974*.) The graduate support programs of the Office of Education provided only $41 million, or about 8 percent of the total.

This is the system in which the OE programs operate, and to which attention has to be paid when the legislation authorizing the OE programs is amended.

II. THE FEDERAL ROLE IN SUPPORTING UNDERGRADUATE AND GRADUATE STUDENTS

The fact that public discussion of student aid over the past two or three years has concentrated heavily on undergraduates suggests that it may be useful, in considering amendment of all student aid provisions of the Education Amendments of 1972, to take some differences between support for undergraduates and graduates into account.

Some of the most important of these are:

1. OE, together with veterans benefits, is the major source of Federal support for undergraduates. It is only one of many sources of support for graduate students, and at the moment OE support for graduate students is being phased out.

SPECIAL ANALYSIS H—FEDERAL EDUCATION PROGRAMS

TABLE H-10.—STUDENT SUPPORT BY AGENCY: FEDERAL OUTLAYS AND NUMBERS OF STUDENTS

Agency	Outlays (millions) 1972 actual	Outlays (millions) 1973 estimate	Outlays (millions) 1974 estimate	Students (thousands) 1972 actual	Students (thousands) 1973 estimate	Students (thousands) 1974 estimate
Undergraduate:						
Health, Education, and Welfare:						
Office of Education	881	1,010	1,227	2,295	2,322	3,787
Social Security Administration	521	659	758	431	469	517
Health agencies and other	46	76	37	52	49	41
Veterans' Administration	1,247	1,683	1,592	1,061	1,098	1,075
Defense	88	98	98	52	47	48
Justice	23	32		64	77	1
Other	8	10	10	8	7	7
Subtotal, undergraduate [1]	2,814	3,569	3,722			
Graduate:						
Health, Education, and Welfare:						
National Institutes of Health	207	254	168	89	86	60
Office of Education	49	57	41	164	165	170
Other	70	66	51	17	17	13
Veterans' Administration	190	245	227	174	171	166
National Science Foundation	30	20	14	3	2	1
Other	15	16	7	19	21	2
Subtotal, graduate [1]	561	658	508			
Total	3,375	4,227	4,231			

[1] Student totals not shown because some students receive awards under more than 1 program.

2. The scale of investment in Federal undergraduate student support is about 7 times the investment in graduate student support—roughly $3.7 billion for undergraduate support from all sources and $500 million for graduate support.

3. The essential purposes of student support differ widely at the undergraduate and graduate level. Graduate student support is—or should be—reasonably

related to the long range demand and supply situation. Encouragement of the intellectually most able students—and not all students—is an important function of graduate student support. Support for undergraduates, on the other hand is intended to ensure that society has an educated citizenry, and that access to this education with the consequent increase in social mobility and earnings is not curtailed because of lack of resources. One practical consequence of these differences is that the BOG concept is valid at the undergraduate but not the graduate level.

4. The interplay between student earnings, stipends, tuition and family contribution is quite different at the undergraduate and graduate level.

5. The prospective demand for persons with specific highly developed skills has a more important bearing on the volume of support for graduate students than for undergraduate students.

6. A much higher proportion of graduate students than of undergraduates is emancipated. While the needs concept is applicable to graduate students, and should be applied more widely, application of a needs test will affect the benefits of a much smaller proportion of graduate students.

This list is sufficient to make the point that the basic concepts applicable to Federal financing of graduate students are quite different from those applicable to undergraduates.

III. AMENDMENT OF THE GRADUATE STUDENT SUPPORT PROVISIONS (PART I OF TITLE I) OF THE EDUCATION AMENDMENTS OF 1972

I should like to conclude with some remarks directed to the task directly before the Committee—consideration of amendments of the Education Amendments of 1972.

To begin with a summary of our recommendations, we propose the following:

1. The unique provisions which can facilitate change in graduate education (Part A of Title IX) should be retained and modified to substitute emphasis on adaptation to new national needs for the existing emphasis on expansion.

2. Four separate fellowship provisions now authorized (in Parts B, C, and D of Title IX) should be consolidated into a single program with separate parts. (A program for mining and conservation authorized in Part D should be transferred to N.S.F.)

3. Four separate sets of terms and conditions for the authorized fellowship programs should be replaced by a single set of terms and conditions because the existing differences are random and serve no useful purpose.

4. A program of fellowships for persons from disadvantaged backgrounds, which now has an authorization of $1,000,000 in any fiscal year, should be replaced by a much broader program which would encompass not only fellowships but such things as faculty exchanges, selective help for outstanding students and tutorial help.

The rational for these proposals can now be put forth in greater detail.

The graduate education provisions of the Education Amendments of 1972 are found in Part I of Title I. (This Part is actually Title IX of the Higher Education Act of 1965, and will be referred to here as title IX.) The title itself falls into two broad categories. The first, Part A, provides for the strengthening of graduate programs. The second, Parts B, C, and D, provides for fellowships to individuals in a number of specific categories.

Both stress on quality and adaptation to changing needs are now of highest priority in graduate education. These goals can not be attained simply by providing fellowships. The Federal government should provide incentives for change in graduate education. This is precisely what can be done under the existing provision for strengthening graduate education (Part A of Title IX) and this provision is unique in the Federal statutes. For this reason, we stress the urgency of funding this part, which has never had an appropriation. However, some amendments are needed. For example, expansion of graduate and professional programs is no longer an appropriate purpose of grants and reference to this as one goal of Part A should be deleted. The goal of aiding graduate schools to change should be further stressed. As another example, the principle that institutions should bear part of the cost of such programs is sound, and this is provided for. However, the law contains a rigid cost sharing formula which should be replaced by a clause providing for greater administrative discretion in determining cost sharing. If the Committee wishes, we can make specific suggestions for amendment of this Part.

The provisions of Title IX which authorize graduate fellowships to individuals have two salient characteristics. First, they provide for a large number of separate fellowship programs, each with a specified purpose. There are fellowships for persons interested in a career in educational programs beyond the high school level, and who are pursuing a doctoral degree. This is Part B. It has been funded primarily to produce teachers, and the funding is being phased out because of the prospective decline in demand for new college and university teachers.

Part C of the title authorizes graduate fellowships to educate persons for the public service.

Part D provides fellowships for "advanced study in domestic mining and mineral and mineral fuel conservation including oil, gas, coal, oil shale and uranium, and for persons of ability from disadvantaged backgrounds." It's somewhat bizarre to combine fellowship programs for mining a conservation with a program for the disadvantaged. Moreover, it is questionable whether, given the mission and current activities of N.E.F., a mining and conservation fellowship program should be in H.E.W. Finally, the fellowship program for the disadvantaged is deficient in many respects, the most obvious being the appropriation ceiling of $1 million in any fiscal year. A second, and more fundamental, problem is that an effective program for the disadvantaged requires more than fellowships. One of the most pressing needs is to replace this inadequate program for the disadvantaged by one that will authorize such things as faculty exchanges and tutorial efforts as well as fellowships.

The fellowship programs authorized in Parts B, C and D of Title IX are clearly fragmented. Here, however, two principles conflict. The first is that if there is a clear need, a categorical program is more effective and is likely to be better funded. The second is that a series of categorical programs is rigid and therefore poorly adapted to meet changing needs. On balance, we think that the existing legislation set up too many categories, and that simpler and broader authority is called for. We would be glad to submit to the Committee a proposal indicating specifically how the provisions could be simplified.

The second characteristic of these fellowship provisions is that each of them has a long series of terms and conditions relating to such matters as stipend levels, cost of education allowances, needs tests, prior work experience for fellowship applicants, requirements for geographical distribution of fellowships and payment of travel expenses. These terms and conditions are different for each program for no discernible reason. We would be glad to submit to the Committee a proposal for a single set of terms and conditions uniformly applicable to all of the programs.

IV. GRADUATE STUDENT SUPPORT THROUGH THE GENERAL STUDENT ASSISTANCE PROGRAM (TITLE IV)

An important question is the extent to which the general student aid provisions can (as in their present form or as amended) provide assistance for graduate students.

A. BOG AND SEOG

Graduate students are not now eligible for BOG's or SEOG's. Therefore an amendment is required if they are to be eligible. Should such an amendment be adopted?

An answer to this depends on one's philosophy with respect to the purposes of graduate education and the rights and obligations of students, the institutions and governments.

As noted above, the concept of universal entitlement, which is accepted and socially useful for undergraduates, does not seem appropriate for graduate students. There is no pressing social need for all college graduates to be able to attend graduate school regardless of their economic circumstances. Moreover, the concept of basing entitlement on the financial circumstances of parents, a basic characteristic of BOG's and SEOG's, will be relevant to such a small percentage of graduate students that this key concept of the BOG program is virtually meaningless. This is not to say that need should not be a factor in graduate student support, but rather that a program of financial assistance should not rest on relative financial need.

Accordingly, we would not advocate an amendment to make graduate students eligible for BOG's or SEOG's.

B. THE INSTITUTIONALLY BASED STUDENT AID PROGRAMS

Graduate and professional students are by law eligible for the College Work Study (CWS), the National Direct Student Loan (NDSL), and the Guaranteed Student Loan (GSL) programs. In principle, self help through work and loans are a sound part of a total program of graduate student support. However, because of inadequate authorizations and appropriations and because of limitations in regulations, these Federal programs have not been—except for the guaranteed loan program—extensively used by graduate students.

We have some proposals that would in our judgment improve all of these programs.

C. COLLEGE WORK STUDY PROGRAM

We are enthusiastic about the potential of the College Work Study for graduate students and attach a separate paper (Attachment A) for the record. First, work is a sound part of a graduate support program. It is good educationally as graduate and professional students gain work experience directly relevant to their professional course of study. These are important growth experiences which future professionals and community and national leaders might otherwise be denied.

Moreover, graduate students can and have provided very useful services to state and local government agencies and to non-profit community organizations. Law students could provide needed legal service for the disadvantaged, graduate arts and science students could serve as tutors for low income and disadvantaged elementary and secondary students, medical students could serve in health care clinics and business students will advise and counsel minority and disadvantaged businessmen—to name only a few of the possibilities. These also are community services which otherwise will not be delivered.

Second, there is an increasing need for work study funds for graduate students. Federal fellowships have declined precipitously. For example, the Graduate School of Arts and Science at one major university reports an estimated loss over the last 18–24 months of $1.0 to $1.5 million in Federal fellowships alone. Many other universities also report greatly increased demands from students, departments and schools for work study funds.

Third, the College Work Study Program is well adapted to fill this part of a sound total program of graduate student support. Graduate and professional schools report a substantial increase in the distribution of graduate student assistance based upon need. As this desirable development grows greater, demands will be heard for work study funds for eligible graduate and professional students.

There are, however, major barriers to the more effective use of CWS by graduate students, as indicated by the fact that only 6 percent of the participants in the work study program are graduate students. We have some suggestions designed to remove these barriers:

1. We request that the Committee recognize the vast unmet needs among students eligible for CWS by increasing the authorization. An authorization of $840 million—double the current authorization—would come closer to meeting the needs of undergraduates plus graduate students.

2. We ask the support of the Committee in improving the regulations for the program. Others have testified on the desirability of (a) removing or modifying the regulations designed to prevent "overawarding," (b) calculating awards in terms of net rather than gross income and (c) forward funding. We support these changes. In addition, we believe that the maximum hourly earnings rate should be set at $4.50 per hour for graduate students.

Finally, we would stress that an adequately funded college work study program must be considered in the broad context of a comprehensive aid program comprised of grants, loans, and other work opportunities.

D. NATIONAL DIRECT STUDENT LOAN PROGRAM

The barriers that prevent graduate students from participating substantially in the College Work Study program also bar them from the NDSL program.

Only 9 percent of 750,000 students receiving NDSL aid are graduate students:

NATIONAL DIRECT STUDENT LOAN

	All institutions	Public institutions	Private institutions	2-year colleges	4-year colleges	Universities
Estimated total number of participants	752, 900	457, 700	294, 200	96, 100	415, 500	240, 300
Postbaccalaureate participants:						
Number	67, 761	36, 616	29, 420	0	33, 240	36, 045
Percent of total	9	8	10	0	8	15

To make funds available on a scale that will enable more graduate students to borrow funds under this program we propose that the authorization be increased from $400 million to $600 million. Here the future is somewhat unpredictable because the success of the Student Loan Marketing Association (Sally Mae) has yet to be fully demonstrated.

E. GUARANTEED STUDENT LOAN PROGRAM

Although loan availability has been a difficult problem for many students this year, graduate student participation in the GSLP, shown below, is greater than for either CWS or NDSL.

GUARANTEED STUDENT LOAN

	All institutions	Public institutions	Private institutions	2-year colleges	4-year colleges	Universities
Estimated total number of participants	686, 700	421, 200	262, 300	65, 900	380, 700	236, 900
Post baccalaureate participants:						
Number	130, 473	67, 392	62, 952	0	72, 333	61, 594
Percent of total	19	16	24	0	19	26

We recommend the following improvements in the GSL program:

1. Although the problem of excessively high rates of indebtedness is of great concern to graduate students there remains a need to provide greater flexibility to meet the needs of graduate students. The current annual GSL loan limit does not even cover the full cost of tuition at many private universities. Therefore we recommend an increase in the annual maximum loan from $2,500 to $3,500 and an increase in the total loan allowable from $10,000 to $15,000.

2. In view of the increasing debt burden on graduate students we also recommend a change in the repayment period from 10 to 20 years.

3. Low loan limits also contribute to students turning to multiple sources of loan funds. This often creates great hardship at repayment time and undoubtedly enhances the likelihood of delinquency and default. Provision therefore should be made to allow a student to consolidate all loans incurred to provide the student with one debt and one reasonable payment.

4. Institutional administrative costs for both NDSL and GSL have grown substantially. An administrative fee of 3% the same amount provided by other programs, would greatly relieve this burden on the institutions.

ATTACHMENT A

THE COLLEGE WORK STUDY PROGRAM AND THE GRADUATE STUDENT

Participation by graduate students in CWS, while distressingly low, grew steadily from 4,600 students in 1965 to about 24,000 students in 1971, approximately a 6 fold increase. Recent figures compiled by the American Council on Education, shown below, indicate a continued increase to almost 34,000 in 1973–74 in graduate, or Post-Baccalaureate student participation.

COLLEGE WORK STUDY 1973–74

	All institutions	Public institutions	Private institutions	2-year colleges	4-year colleges	Universities
Estimated total number of participants	565, 100	376, 300	187, 500	117, 100	325, 100	21, 700
Postbaccalaureate participants:						
Number	33, 906	22, 578	9, 375	0	16, 255	13, 387
Percent of total	6	6	5	0	5	11

This represents, however, only about 6% of the total student participation in the program. Graduate students in universities accounted for only 13,387, or 11%, of the 121,700 university-based participants and only 2.4% of the more than half million total work study recipients. Total graduate student enrollment in fall 1972, according to the United States Office of Education, was 943,000 students.

A number of factors have contributed to this low participation rate. The primary cause, predictably, has been a lack of sufficient funds. There simply have not been enough CWS dollars to meet the needs of all eligible undergraduate, graduate and professional students. As a result institutions, through their financial aid officers, have had to make very difficult decisions in establishing priorities to allocate the funds which were available. Institutional policies and priorities have followed the program guidelines of the United States Office of Education and have given preference, quite legitimately and understandably, to needy undergraduate students in an effort to help assure them access to postsecondary education. In meeting these very important needs the funds have almost always run out before the eligible graduate student needs could begin to be met. Although institutional experiences vary widely it may be helpful to quote Mr. Thomas Lovett, the Director of Financial Aids at Tulane University in this regard. "While Tulane has not had sufficient CWS funding to assist many graduate and professional students, the funding level has allowed us to offer 70% of our entering freshmen employment to make up about one-third of their student self-help packages, and to continue this employment for their four undergraduate years. The typical undergraduate aid recipient at Tulane will have borrowed $2,500 to $3,000 under the NDSL program by the end of the four years. (Were the CWS self-help program unavailable, these students would complete their undergraduate work with upwards of $1,500 of additional debt.")

During the 1960's when federally fellowship support was more readily available eligible graduate students, in general, were not severely affected by the shortfall in College Work Study funds. The climate, however, has been sharply changed. In many institutions other sources of graduate student support have fallen off precipitously, and many universities are reporting both rapidly increasing demands from eligible graduate students for CWS support and frequent requests to participants in the program from graduate departments and professional schools. The Graduate School of Arts and Science of a leading University—it happens to be Harvard—estimates a loss of Federal Fellowship funds over the last 18 to 24 months of between $1 to $1.5 million.

Mr. Robert Huff, Director of Financial Aid at Stanford University notes: "(B)ecause of the sharp fall-off in funding for graduate and professional students, great numbers of these students have only loan programs which to turn to for assistance. There should be a greater availability of Work-Study for them".

With only loans to turn to and the prospect of greater and greater indebtedness before them it is not surprising that many of these eligible graduate students have begun to feel like the forgotten stepchild of postsecondary education and have asked whether the Congress has lost interest in their contribution to society.

A number of good reasons support greater graduate student participation in CWS. First, graduate and professional programs increasingly are providing graduate financial assistance based upon need. To cite just two examples, an estimated three out of four graduate divisions at Tulane University now base much of their aid on student need. Cornell University also reports a major increase in the amount of aid being distributed in graduate and professional programs based on need. The CWS program thus has become an increasingly appropriate way to meet the needs of many graduate and professional students.

A second major reason to respond to the growing interest and demand by graduate students is the substantial benefits to be derived by the student, the institution and, very frequently, by public organizations who employ CWS graduate students. While "working your way through school" remains both philosophically and practically attractive, for many students it has become a necessity as parental resources are taxed by inflation and as the costs of younger brothers' and sisters' undergraduate educations must be met.

Graduate students employed under a well planned CWS program also gain valuable professional experience in jobs directly related to their program of study. Valuable services both for the institution and other students are provided on campus as CWS graduate students work at jobs such as teaching and research assistants, student counsellors, tutors for undergraduate and disadvantaged students and as administrative assistants in a variety of capacities.

The opportunities for CWS graduate students to provide high quality services to the community are almost limitless and are very exciting. Dean Kenneth Pye of the Duke University Law School reports for example, that 120 law students in the Duke Law School now work in a variety of state and local government agencies and non-profit community organizations. Restrictions in current program regulations prohibit still greater numbers of Duke law students from serving public needs while pursuing their legal education.

Since graduate and professional students are more highly trained, they are potentially more useful to state and local government agencies and to non-profit community organizations. Law students could provide needed legal services for the disadvantaged, graduate arts and science students could serve as tutors for low income and disadvantaged elementary and secondary students, medical students could serve in health care clinics and business students could advise and counsel minority and disadvantaged businessmen in the development of their firms. These are growth experiences which future professionals and community and national leaders might otherwise be denied. These are community services which otherwise will not be delivered.

To summarize, the need among graduate and professional students for CWS support is continuing at a sharply increased rate. Students, faculty and administrators alike are enthusiastic over the untapped opportunities potentially available to students and society through the CWS program. The principal question before us is how to meet that need.

Except for an increase in the authorization, no major changes in the authorizing legislation seems indicated in order to achieve the goal of greater participation in the CWS program for undergraduate, graduate and professional students. With regard to the authorization, a substantial increase is warranted. Indeed the major higher education associations in their recent testimony before the appropriations committees stressed the growing demand for CWS funds and requested that the full authorized amount of $420 million be appropriated.

In light of these considerations the Committee should carefully consider an increased authorization for CWS of $630 million, a 50% increase, with the expectation that the program would begin to significantly assist eligible graduate students.

Although these would not require new legislation the following changes in the regulations would greatly enhance the effectiveness of the program.

1. To increase the flexibility through which the program may more effectively serve graduate students the maximum hourly wage rate, currently $3.50, should be increased to $4.50. Although the needs of many graduate students and their CWS employers could be met within this limit, the needs of highly trained students and of their employees could frequently be met more effectively if the institutions had greater flexibility in establishing the hourly rate.

2. The current regulations impose an impossible administrative burden on institutions by requiring them to monitor the work load of CWS recipients in an effort to prevent "overawarding." The primary effects of this requirement are to exhance the attractiveness of non-work study jobs, to place cumbersome administrative burdens on institutions and to further compound the confusion and cynicism of students.

3. Tax deductions often result in a CWS student's net income following below his or her, calculated need. A CWS award of $600, for example, to a student, after deductions, may net that student less income than the calculated need of $600. Awards should be made, therefore, not in terms of gross income but in terms of the net income needed to meet the calculated need.

4. Time to plan effective work opportunities, especially summer jobs, is essential to the success of the program. The current funding cycle frequently does not provide sufficient time to allow institutions to maximize the CWS funds both

in terms of the numbers of students benefited and in terms of the educational quality of the work experience. Therefore the Congress should consider forward funding the College Work Study Program just as it now forward funds the National Direct Student Loan Program.

STATEMENT OF DR. RICHARD LYMAN

Dr. LYMAN. Thank you, Mr. Chairman.

I am Richard Lyman, president of Stanford University.

Serious Federal recognition of the importance of supporting graduate education began, as we all know, about three decades ago in the period right after World War II, when there was a general recognition that research and particularly university research was an important source for the country, both in short-term and long-term needs, in meeting those needs.

It became increasingly obvious after the war that the level and quality of research in graduate training exercised a powerful influence on our national life. Also, gradually, it became apparent that graduate education and research are inseparably linked.

The same institutions that carry on the one carry on the other. In fact, they do so as part of a unified process.

As this recognition of the importance of the link between research and graduate education grew, so acknowledgement of the role of the Federal Government with regard to graduate education.

There are a number of reasons why it has been logical and remains so that the Federal Government assume a major responsibility in this area. The fruits of university research obviously are heedless, let's say, of boundaries, and in fact they are very seldom contained even by national boundaries.

Graduate students tend to be far more mobile than undergraduates and more likely to cross State lines in search of a particular educational program that meets their needs, but the relationship between graduate education and national needs and the consequent interest in Federal support were perceived first and foremost in terms of the shortage of trained manpower in one field after another, as those fields became important in the 2½ postwar decades.

When it became apparent several years ago that the expansion of graduate programs had been sufficient to insure an adequate supply of trained manpower in those fields already defined, in some fields more than adequate supply, the Federal support began to dwindle very rapidly.

In 1967 there were over 11,000 federally supported education fellowships, just one form of support, of course, but a very important one. Five years later over 2,000 were only available.

The total number supported by fellowships plus traineeships was 51,400 in 1968 and in fiscal 1974 that number had dropped to an estimated 6,600. In dollar terms overall Federal support levels for fellowships and traineeships declined from a high of $262 million in 1968 to $114 in 1972, and they have been projected to something like $33 million in fiscal 1974.

Federal support of basic research at universities and colleges rose by 11 percent from 1968 to 1972 but in constant dollars there was a decline of 7 percent.

This has been true not only in HEW supported and administered funds but in other agencies, too the National Science Foundation, the Space Agency, AEC, NIH, and so on.

We have a strong feeling that it was a mistake to make such broad cuts without more profound weighing of the policy questions that would arise, but I have to admit that the higher education community is somewhat late in raising this question coherently and forcibly.

Two things became apparent as soon as we began to examine the Federal role.

First, given the history to which I referred, it is literally impossible for all the Federal Government to have no impact at all on the future of graduate education. Whether the Government provides funds at a high level or at a low level or at no level, graduate education will be affected.

Thus, it is acutely important for Federal policymakers to have a clear view of the present and future nature of the enterprise, of its place in the general structure of higher education, and its relationship to the important interests of the Nation.

Without context policy is bound to be blind in education as in other fields.

Second, despite the reasonable assumption that the total number of graduate students is adequate to meet current national needs there are important Federal concerns not necessarily addressed by numbers alone.

Despite the waxing and waning of Federal interest in research there has been a steady growth of new fields of knowledge that are clearly of importance to the Nation, and computer science, biochemistry, astrophysics, are examples of disciplines developed into fields of obvious national import in the postwar period.

There are new fields emerging which in all probability will turn out to be of equal importance, such as the study of health care delivery.

So, we are concerned that graduate universities be flexible enough and healthy enough to create new knowledge and to meet new training demands which the developments of these new fields create. This is very difficult to do without a steady level of support.

Our traditional method of handling both graduate education and research has been to provide a burst of support in reaction to a national crisis—to the cold war, to the health crises, to sputnik, to the environmental crisis—and we are reacting in the same way to the energy crisis today.

But new fields do not spring full-blown from the ground. At their inception, computer science programs were staffed by mathematicians and electrical engineers from existing university programs working at the shared frontier of knowledge of their field which led into computer sciences.

It takes time and rational planning to develop a discipline, and it makes little sense to tailor a discipline to a specific crisis and then let it lapse the moment the crisis seems to diminish.

Besides, crises seldom go away; they are simply pushed off the front page. It is not clear what the next crisis will be although there are plenty of candidates waiting in the wings.

The only thing we can be reasonably sure of is there will be one and another one and another one.

I want to cite an interesting example at Stanford of just such an experience in one of our engineering departments. I happened to visit this lab recently and it is a fascinating place.

For over a decade, Professor Robert Eustis doggedly pursued a workable process of magnetohydrodynamics—a process for generating electricity by ionizing gas at high temperature, eliminating the need for the conventional boilers and turbines when utilizing fossil fuels and offering the promise of substantially greater efficiency.

Until recently, over the whole of the United States, only about 10 researchers were at work on the problem and funds were quite scarce. In this year alone, Professor Eustis' funds have been doubled, and the total spent on academic research in the field has also doubled to a level of $7.5 million, which is a tiny fraction of what will be needed if this field is to be made fully useful to the country.

The demand for more efficient means of using fossil fuels is certainly not new, it is only the public awareness of the problem and the relevance of this research that is new.

As a means of countering this spasmodic approach to policymaking, I believe it is in the Federal interest to establish two broad criteria for the support of graduate education and research: The steady ongoing need for research knowledge and skilled graduates; and the need for highest attainable quality in every field.

With regard to students, the Federal Government should recognize that while the graduate student body may remain relatively stable in absolute numbers, there will be shifts in numbers among fields.

It is important to maintain a steady stream of the highest skills to all critical fields. But it is also important to provide encouragement to new fields, independent of whatever crises may arise and independent also of their immediate practical application.

Non-Euclidean geometry began as a purely theoretical pursuit—and nobody thought of it as an answer to a national crisis—and served as the basis for Einstein's theory of relativity and thus for all of atomic and space research. The split between pure and practical disciplines is a false dichotomy or mirage.

We think our concern should now be to develop excellence in existing programs and particularly to maintain and enhance excellence where it already exists; a vast general expansion obviously is not in the national interest.

It may even be there is a state of overdiffusion. We may need to take some measure of concentration.

Some of the strongest graduate schools have been hardest hit by the cutbacks to which I referred.

In view of these considerations I would like to present four general recommendations before we move into specifics for Federal policy for graduate education.

First is support of new fields in the early states of their development. We should not be bound to the traditional and proven disciplines. We should recognize that new fields evolve from very small beginnings and usually are in need of support in their formative period.

Computer sciences and biochemistry, as examples, began modestly with research in long-established disciplines and then gradually worked their way to the point where they transcended the bounds of those learningful disciplines.

Furthermore, the support of developing fields as I indicated should not be dependent upon their promise of immediate usefulness. Too much emphasis on practicality turns out to be a shortsighted approach damaging to our research progress and graduate training in the long run.

The second consideration, that of facilitating the gradual transition of doctoral employment of Ph. D.'s, from concentration on academic research to a wider spectrum of roles throughout society.

Two things seem clear here, first, that there is an important national interest in insuring adequate supply of highly trained manpower and, secondly, social policy designed to insure that supply must necessarily be based on some kind of labor market projections because of the lead-time needed.

But attempting to control access to fields by differential support levels through manpower planning that is too closely coupled to the needs one perceives at the moment does not work.

The uncertainty of predictions made on that basis are all too obvious in our recurrent cycles of over and under supply.

So, what we are looking for here is a stable capacity based on real needs and not too sensitive to changes in momentary perceptions of need.

The third consideration is the desirability of multiplicity of support agencies.

From the Federal perspective we can well understand it is tempting to think in terms of reducing the number and diversity of agencies supporting graduate education and research and yet that same pluralism provides an essential flexibility and diversity in the whole enterprise.

In any one agency there tends to be a relatively fixed sense of priorities and contact with a given set of researchers. I believe that a monolithic single fund granting agency could not be expected to react with adequate speed and expertise to new trends in specialized education fields, those same new trends that may lead to creation of very few fields.

The fourth and final consideration is the consideration of the special needs of the disadvantaged.

Since the late 1960's a great deal of effort and attention has been focused upon the historical disadvantage in higher education suffered by many lower class whites, women, and members of ethnic minority groups.

But full extension to these groups of opportunity for training at the graduate level has not been achieved. Blacks constitute nationwide about 9 percent of the undergraduate population.

Yet at the graduate level they account for less than half that proportion of the student body. Indicative of this situation, three black engineering students at Stanford passed their Ph. D. qualifying exams this January—the first American blacks to do so in Stanford's history. This does not mean that they are singularly backward.

A couple of years ago we gave six masters degrees to blacks and that was one-seventh of the national total of masters degrees granted to blacks in that year, 1971.

In contrast to undergraduate education, graduate admissions are highly decentralized by school, department, or program within the university.

Nevertheless, it is possible to construct financial aid programs in such a way as to give departments strong incentives to recruit outside their usual patterns, and thereby broaden their applicant pools.

It is essential that Federal policy reinforce such efforts if minorities and women are to have the opportunity available to others to develop their talents to the fullest extent.

The benefits that we are a country seek from genuinely equal access to undergraduate education cannot be achieved unless far larger numbers of minorities and women become trained professionals, gain leadership positions in business and government, and earn faculty positions in colleges and universities. That will not happen until the graduate schools enroll sufficient numbers of minority and women candidates.

Thank you, Mr. Chairman.

[Balance of statement follows:]

There are, of course, differences among those concerned with graduate education—differences in priorities, differences over particular programs. But on the central issues there is strong agreement about what would constitute a useful revision of the Federal programs which you are considering. We believe it should include eight points:

1. *A program of merit-based competitive national fellowships.* Such a program would guarantee that the best students are able to pursue graduate studies on the basis of academic merit alone. The grants should be completely portable among institutions and fields. The National Board Report recommends 2,000 new starts a year; I would prefer a number closer to 5,000, a figure still substantially below the levels of a few years ago and equal to only about 3 percent of graduates enrolling for the first time.

2. *Programs of special fellowships in certain fields of high national priority.* These programs would provide an incentive to universities to develop new graduate fields where, for example, there is a clear national shortage of trained manpower. It would also be an effective way of encouraging students to enter fields where the need for trained manpower is greatest. Such programs would logically be sponsored by many Federal agencies, each in its own field of concern, as has been true in the past.

3. *Companion grants accompanying each of the two types of fellowships noted above,* which would go to institutions as incentives to enroll students holding fellowships—and as much-needed support for the programs those students would be entering. These grants should provide something on the order of $2,500 per fellowship holder enrolled, over and above tuition.

4. *A program of training grants for high-priority areas of national concern where something more than fellowship support is required.* Training grants would provide funds to institutions for operating costs, equipment, faculty and staff salaries, and support of graduate researchers.

5. *An expansion of the College Work-Study program* with a conscious effort to include support for more graduate students. Few people, in Washington or in the universities, recognize the potential of this program at the graduate level. This point is especially important when taken in conjunction with my next one.

6. *Maintenance and expansion of Federally subsidized loan programs, but with caution.* Considerable procedural difficulties are associated with administering loan programs, but the social difficulties of too great a reliance on loans are even more significant. More students are entering graduate school nowadays with sizeable loans, and more emphasis is being placed on borrowing for support while in graduate school. There are grave disadvantages in having a significant number of graduates with large debts. That state of affairs runs counter to avowed Federal policy to allow all to start the race of life equal, and will surely cause considerable and enduring resentment. There is also the implication to students that deferring costs generally is the best way to go through life. I'm

old fashioned enough to think that that is a bad thing. Loans should be available but should not be viewed as a primary means of financing an education.

7. *Rejection of proposals to expand the BOG and SEOG programs to include graduate students.* The concept of universal entitlement is relevant rather to undergraduate education, where universal access has been a social goal.

8. *A specific effort to enhance the opportunity for access to graduate schools for the educationally disadvantaged.* Considerable study has gone toward generating a proposal for a Federal program to alleviate this complicated problem. Structuring such a program for the disadvantaged at the graduate level is much more difficult than at the undergraduate level because of inherent differences. However, a consensus is forming that, to be effective, a special program for the disadvantaged must be developed, providing competitive grants to graduate universities that not only allows them to make fellowship awards but to undertake program development, recruiting, and related activities.

In summary, there is a need for a thoughtful, rational Federal policy toward graduate education. The present trend toward eliminating one Federal program after another in this area is, in fact, a policy, even if it is not a very carefully considered one. All too often, Federal programs ride up or down on the waves of one national crisis after another.

What is needed is a policy that recognizes the existence of important Federal interest in graduate education beyond the assurance of an adequate total number of trained people. These include—

A determined and constant effort to raise the quality of both students and educational programs in every field;

A recognition of the long time constants in both research and graduate training, which in turn requires anticipation of what areas of knowledge and skills will be needed to meet problems not yet broadly recognized by the American public; and

A new sense of concern about the need for the opportunity for access to graduate education for those of educationally disadvantaged backgrounds.

Dr. KIDD. Mr. Chairman, with that background, we might proceed to the terms of a national program for graduate education and then zero in on the Education Amendments of 1972 and some proposals we would like to make with respect to amendment of that title and also of the college-based programs.

Mr. O'HARA. Please do.

STATEMENT OF DR. DAVID BRENEMAN

Dr. BRENEMAN. Thank you, Mr. Chairman. I am David Breneman, staff director of the National Board on Graduate Education.

My statement is prepared on behalf of David D. Henry, Chairman, and the members of the National Board on Graduate Education.

These 25 individuals are identified on pages ix–x of the National Board report entitled "Federal Policy Alternatives Toward Graduate Education," copies of which have been provided to members of the committee.

The National Board on Graduate Education was established in 1971 by the Conference Board of Associated Research Councils, to provide a mechanism for a thorough review of graduate education in the United States.

A major board effort during the last year has been a systematic rethinking of the relationship of the Federal Government to graduate education, with special emphasis on the changing circumstances from the 1960's to the 1970's.

The report mentioned above contains the board's analysis and conclusions on this subject, and I will summarize briefly the recommendations reached on graduate student financial support which is only one part of the total report.

I should note that the board's report surveyed the total spectrum of Federal support for graduate education, and thus my summary will extend beyond the legislation contained in the Education Amendments of 1972.

Chapter IV of the report, as the Chairman previously noted, is devoted exclusively to the topic of graduate student support.

A basic assumption underlying our analysis is the belief that the benefits of graduate education are both private and social, accruing to the individual student and to the State, region, and Nation.

This argues for pluralistic sources of students finance, with fellowship, traineeships, teaching and research assistantships, loans, family resources and subsidized tuition all playing a part.

For the 1970's, the board endorses the following principles for graduate student support. (Supporting arguments and analysis are contained in chapter IV of the report which I won't repeat.)

1. Three specific forms of fellowship-traineeship support are appropriate to the foreseeable needs of the 1970's.

a. Merit Fellowships. A limited number of portable fellowships, awarded in national competition on the basis of academic merit, to be used for doctoral study in any academic discipline. The board recommends that the National Science Foundation and the National Endowment for the Humanities award 2,000 new merit fellowships each year, with an average annual stipend of $3,500 and a $4,500 cost-of-education allowance in lieu of tuition.

b. Specialized manpower and research programs. The board recommends that the mission-oriented Federal agencies award competitive research and training grants to universities to support research and graduate students in areas of high national concern, including such problem areas as energy supply and distribution, health care delivery, and mass transportation. The primary purpose of these 5-year grants would be to speed up the movement of graduate students, faculty and university resources into research areas of current social concern.

Under this heading, I might add the board endorses last December's congressional action in appropriating funds for fiscal year 1974 to continue the National Institutes of Health/National Institute of Mental Health training grant programs.

c. A program for minority/disadvantaged students. The small numbers of minority/disadvantaged individuals educated to the Ph. D. level indicates a need for a special Federal program to increase the number of such individuals who successfully enter and complete graduate school. The National Board on Graduate Education is currently preparing a report on this subject, and I will return to this briefly at the close of my remarks.

2. At this time, Federal fellowships specifically for the purpose of stimulating additional students to prepare for academic careers are not required. Therefore, the board does not recommend the continuation of Federal programs begun in the 1950's and early 1960's that were designed primarily to increase the supply of college teachers.

3. A national program of grants for graduate students based on financial need and modeled on the undergraduate basic opportunity grant is not endorsed, for both philosophical and practical reasons.

4. Teaching assistantships, financed with State and institutional funds, and research assistantships, financed largely by Federal research grants, are assumed to be important continuing source of graduate student support.

5. Loans should continue to be a significant component of a total plan for graduate student support, but there are definite limits to the utility of loans. In individual cases, loans should not be so large that highly capable students are discouraged from undertaking graduate work.

Moreover, several technical problems in the terms, conditions, and administration of existing loan programs prevent their expansion much beyond current level. These technical problems are spelled out in some detail in chapter IV of the board's report.

These problems are sufficiently difficult that substantial analysis and debate will be required to resolve them, which suggests that for the immediate future, loans cannot be expected to take up all of the slack caused by the reduction of other support programs.

6. The Education Amendments of 1972 should be amended to increase the individual loan limit from $10,000 to $15,000, and to extend the repayment period from 10 to 20 years.

The above general principles for graduate student support endorsed by the board cut across several Federal agencies and many different acts of Federal legislation. In many of the specific programs recommended, the role of the U.S. Office of Education would be minimal.

With respect to the special program for minority/disadvantaged students, however, the U.S. Office of Education would certainly play a key role. I will return to this topic at a later point in the hearings.

Thank you.

Dr. Kidd. Mr. Chairman, that lays the general background for support for the changes that have occurred and a general perspective for the total Government support of graduate education and graduate students.

With the permission of the committee, we would like to turn now to the Education Amendments of 1972 insofar as they relate to the support of graduate students.

On page 7 of my prepared statement I have some suggestions with respect to the changes. To recall to the committee the substance of the graduate education part of the act, it is literally part (i) of title I and it is one of the title IX's in the act. It has parts (a), (b), (c), and (d).

Part (a) of this title provides for general support of education and parts (b) and (c) and (d) contain separate fellowship programs. Part (b) has quite general fellowship programs and (c) has fellowships for the public service. Part (d) has two subcomponents, one for fellowships in the areas of conservation, mining, energy, and so on, and a program for the disadvantaged.

So that is the bare bones of the fellowship support program under the Education Amendments of 1972.

We have some suggestions with respect to amendments of those. I would like to ask Dr. Page to talk about part (a), the general support provision and related matters.

STATEMENT OF DR. BOYD PAGE

Dr. PAGE. Thank you.

I am Boyd Page, president of the Council of Graduate Schools in the United States.

The 315 institutions holding membership in the Council collectively award over 98 percent of the doctorates and 85 percent of the masters awarded annually in the United States.

As you can see, our membership ranges widely over all types of graduate institutions.

Our members take their responsibility very seriously and are deeply concerned about the future welfare of graduate education.

I have chosen to concentrate my few remarks on two areas related primarily to the need for additional fellowship support and the need for built-in flexibility, beyond that now existing in title IX and in part (a).

First, if I may, I would like to present just a few statistics. These have appeared in a very illuminating survey, Careers and Curriculum, just published by the Educational Testing Service.

This is a followup 1 year later of a very extensive survey of 21,000 college seniors trying to find out what their interests and professional objectives were. In this study they focused in on the 8,000 seniors who did indicate that they had definite plans to go into professional graduate schools.

Approximately 73 percent of those who had indicated an intention to go into graduate study were in fact enrolled. Of those who did not enroll, 20 percent of the men gave as the reason that they could not afford it.

The corrresponding figure for women was 29 percent; for blacks it was 31 percent. Contrast these figures with the indication that only 2.6 percent of the blacks and 2.4 percent of the women said inability to gain admission to the school of their choice was the reason for nonattendance.

Another brief set of statistics bears on this point. There is evidence that blacks are moving in increasing numbers from high schools into universities, that they have higher aspirations for advanced education work than do the whites, and yet we still see that with all of the programs that have been mounted there are difficulties before them.

Thirty-eight percent of the white students who are now enrolled in graduate school in the survey have had to borrow money to finance education in the first year as compared to 67 percent of blacks. Thirty-five percent of the blacks had borrowed up to $2,000 in the first year and 16 percent had had to borrow more.

Furthermore, 56 percent of the whites said they owed nothing, but only 20 percent of the blacks were able to make that same statement.

I cited these figures not to show that blacks remain at a disadvantage, although they clearly do, but to emphasize that present availability of funds falls short of what would be needed to prevent social loss through loss of high potential individuals for advance training and to prevent a sense of frustration and despair for those who eagerly seek opportunity to prepare themselves for careers of service.

The deans of our member institutions in many cases are acutely aware of these personal and social problems.

I wanted to make clear to the committee we have no quarrel with broadened access to undergraduate education, but I submit that what now seems called for is extension of this laudable goal to graduate study only to the extent required to make sure that the few most highly qualified and motivated individuals who have been able to make their way through their undergraduate career with hopes of continuing into professional and graduate school will not find their progress blocked through unavailability of funds.

The figures I have cited above do, I think, show we still fall far short of this goal.

I submit that the numbers of such students needing assistance in comparison to the numbers of undergraduates needing assistance is not large. Augmentation of existing loan funds in work-study opportunities, as my colleagues will emphasize, even in moderate amounts could go far in relieving these obvious inequities.

We suggest that especially targeted funds might be required. These should be based only on merit and need, and we wish to emphasize again that these could go far toward accomplishing what is certainly to be desired.

We submit that under the broad mandates of title IX no new legislation, only minor amendment or revision of existing legislation, would be required.

The graduate community would, I am sure, Mr. Chairman, be pleased to provide suggestions relating to proposed amendments or revisions.

The other area which specifically is covered in part (a) to which I wish to address attention of the committee relates to institutional capabilities and availability of programs.

Graduate education is clearly in a rapidly shifting, transitional phase. New procedures need to be developed, new populations need to be served and additional specializations provided.

Students seeking entry into our graduate schools increasingly see themselves in future roles different than their predecessors. In many cases they are not able to devote full time in unbroken sequence to their period of graduate study. In other situations they desire to intermix periods of concentrated study with periods of work, as they put it, in the real world.

Traditional patterns of study and research are not easily converted to accommodate such students. Provision of student aid usually does not provide for discontinuities. New arrangements need to be devised.

These new directions are being widely recognized. In many faculties there are individuals holding visions of future needs and patterns of service quite different from what is now accepted as the norm. But in times of tight budgets, necessary funds for curriculum building, for experimentation and for innovation simply are not available.

We are not advocating abandoning strong graduate programs or lowering standards. It would be anticipated at the outset a few institutions would be qualified, interested, and eager to do exploratory work in developing new patterns or new delivery systems for graduate study and for the development of new specializations which would be more responsive to the needs of the society.

A panel on Alternate Approaches to Graduate Education, with which I was fortunate to be associated, looked in depth into what students are beginning to seek and into what new patterns of study and research need to be established to augment our present offerings and what society can reasonably expect from universities in the years ahead.

Copies of the report of this panel Scholarship for Society, have been made available for the use of the committee and I will not go into any more details.

As I suggested, there is much discussion and some experimentation is already underway.

Limited exploratory work can be undertaken utilizing institutional resources, but additional funding, in the nature of seed money, will be required if institutions are to move on a solid basis toward enrichment of graduate offerings with future oriented programs.

It is here, Mr. Chairman, that section A of title IX could, with very little redirection, serve as a catalyst, to provide needed support for selected studies, for experimentation and innovation, and for pattern setting which could be of significance to the entire graduate community.

Title IX calls for funds to be granted to institutions to "* * * strengthen, improve and where necessary expand * * *" graduate education and for improvement of quality.

It would provide for expansion—we would not anticipate that gross expansion of our total capability is called for, rather selective expansion in needed new fields. Very little, if any, revision of this section would be necessary but the need for funding even under the existing authorization is great.

Provisions for fellowships along with grants to institutions need to be anticipated. In the other parts of the legislation where student assistance is provided, attention needs to be directed toward building into the programs flexibility so that those students whose study pattern is not continuous would not be disadvantaged.

In summary, Mr. Chairman, we do not see need for extensive new legislation to accomplish what most urgently needs to be accomplished.

Enactment of title IX of the Higher Education Amendments of 1972 did signal recognition by the Congress of the necessity for strengthening and improving graduate education. We do believe that some changes in emphasis and in direction could strengthen this title in directions responsive to rapidly changing social pressures.

We stand ready to be of what assistance we can in helping to formulate the necessary amendments to the excellent legislation which already has been provided.

Thank you, Mr. Chairman.

Dr. Kidd. Mr. Chairman, could I proceed to parts (b), (c), and (d)?

Mr. O'Hara. Please do.

Dr. Kidd. We have two essential recommendations with respect to amendment of those parts.

The first recommendation is that the four separate fellowship programs that are now authorized be consolidated into a single program with subparts. The existing provisions create, in our opinion, an overly specialized program which is not responsive to changes in the future.

In addition, we would recommend that the specific fellowship program authorized but never funded in part (d) for mining conservation and energy be transferred to the National Science Foundation. The NSF has the mandate to train people for energy and has closely related programs. This specific program which, as I said, has never been funded, in our opinion, would be more productive and useful if in context of the National Science Foundation programs.

The second recommendation for amendment of these parts relates to terms and conditions for fellowship programs. Each of these several programs has a separate set of terms and conditions.

The provisions relating to stipends, for example, for cost of education allowances, and for travel allowances differ in minor ways and as far as one can see there is no particular rationale for the minor differences which exist.

We think that a single set of terms and conditions could be written for the total program and for the consequent simplification of the structure and reduction of administrative complexity.

I must say that while these amendments would be helpful, the critical problem at the moment in these programs relates to funding levels and not to the terms of the legislation. However, the terms of the law can be simplified, cleaned up and the whole part, or set of parts, made easier to administer and more responsive.

We would be glad to work with the staff on the details of wording that would accomplish that end.

I might turn now, briefly, Mr. Chairman, to the general student assistance programs insofar as they relate to graduate students.

As has been said, we would not advocate that the BOG program and the SEOG program be extended to graduate students. The concept of universal entitlement in our opinion is not appropriate for graduate students on the ground that Dr. Page indicated. The concept of basing entitlement on the financial circumstances of parents, the basic characteristics of the BOG program and SEOG programs, would be relevant to such a small percentage of the graduate students that this key concept is virtually meaningless for graduate students.

Insofar as the other programs are concerned, we believe that the college work-study program is well adapted to support of graduate students. It has not been used extensively, primarily because of the extremely heavy demand at the undergraduate level and the proper priority that has been given to support of undergraduates.

Our specific recommendation is that consideration be given to a large increase in the authorization for this program, perhaps a doubling of the authorization, to permit graduate students as well as undergraduates to benefit from the program.

We would also ask the support of the committee in improving regulations for the program. Others have testified on the difficulties generated by the regulations designed to prevent overawarding, the problems arising from calculating awards in terms of gross rather than net income, and the need for forward funding. We support all of those changes in the college work-study program.

The NDSL program has been little used by graduates and only 9 percent of the recipients under that program have been graduate students. The primary problem has been funding, and we would again urge consideration of lifting the authorization level under that program to make loans available for graduate students.

Under the guaranteed student loan program, as Dr. Breneman has said, we consider that loans are a proper part of the support of the graduate students and our specific recommendation is that the annual maximum loan be increased from $2,500 to $3,500 and that the total loan allowable increase from $10,000 to $15,000.

That seems to us to be a reasonable compromise between a ceiling which is so low that graduate students cannot borrow enough, and an excessively high limit which would permit graduate students to get into trouble through overindebtedness.

We also would urge a change in the repayment period from 10 to 20 years.

That, Mr. Chairman, completes our suggestions with respect to amendments and we would be glad to answer any questions that the committee may have.

Mr. O'Hara. Thank you very much, Mr. Kidd.

I have just a couple of comments before I yield to the gentleman from Oregon.

Then after he completes his questioning, I perhaps will have a couple of questions myself.

I am delighted to have heard your ringing endorsement of the college work-study program, which I think is one that has great potential for graduates and undergraduates alike, an unrealized potential.

I am a little concerned, however, about increasing the loan limits and the repayment period and so forth. I am less concerned about it for graduate students than I am for undergraduate students, but I am still concerned about it, because, as one of you mentioned, the size of these loans is a problem and repayment becomes extremely difficult.

I am one who will take a good hard look at that. I think by the time someone had undertaken graduate study they are in a better position to make a sound judgment on just how much they want to borrow or can afford to borrow.

But even so, I am somewhat concerned.

Dr. Kidd. There is a problem, as you suggest, as to whether you make the provisions relate specifically to graduate students or have them apply to all students. This arises, for example, in the proposal to lift the loan limit.

The question arises also in another recommendation that we had which I did not note specifically. That is, a proposal that under the work-study program the earning limit—and this is a matter of regulations and not law—be lifted to $4.50 an hour rather than the existing limit of $3.50 an hour. The graduate students are older and more experienced and quite often can earn more than undergraduate. We have the same problem there as to whether, if that limit were lifted, it should be lifted for all students, graduates and undergraduates, or lifted only for graduate students.

Our inclination would be to recommend it be lifted only for graduate students and that if the loan limit be extended that the increase be for graduate students.

Mr. O'Hara. I notice that you don't recommend programs that would, by providing graduate student assistance to particular kinds of graduate students, direct graduate study into certain fields.

I gather it has been your feeling that we don't really know enough to make wise decisions as to which directions to point the graduate students and I think that in general that is a pretty good observation, but I am not sure it is in particular.

I think there are some areas where we need not only to stimulate graduate education but provide special incentives for qualified students to undertake graduate education in particular fields.

Dr. KIDD. Well, the National Board on Graduate Education paid a great deal of attention to that problem.

Dr. BRENEMAN. Yes, and in the second program itemized, the research and manpower grants were really responsive to just the concerns you mentioned.

These were explained in chapter 4 in some detail. The purpose is to do just what you suggest, that in areas where there is obviously a need for new research and where there is a lack of progress in the university in encouraging students and faculty to go into these areas, some selective grants would be helpful.

Mr. O'HARA. As I noted the testimony on that point, you were recommending that mission-oriented Federal agency award competitive research and training grants to universities to support research and graduate education which is a national concern. I don't gather that you were proposing to provide special stipends to students entering particular fields of graduate study?

Dr. KIDD. The competitive award to the university would follow the traineeship or training grant model. That is, a large part of the award would be to provide student support funds. Then fellowships would be locally awarded and related to the purpose for which the grant is made.

Mr. O'HARA. All right. I thank you for clarifying that because I do think that is important.

Dr. KIDD. Mr. Chairman, I think there is an analog of that approach in the OE programs; that is, in the fellowships for public service, again a program which has never been funded. We would propose that not be a separate program but a component of a single program. I think that the need for well-trained people in public service and to provide incentives to people who enter public service is one of these urgent national goals that should be pursued through award of fellowships.

Mr. O'HARA. Mr. Dellenback, would you have some questions?

Mr. DELLENBACK. Yes, Mr. Chairman.

There are a host of roads, where time permits, that we would like to walk on on this.

May I ask one question following up the work-study thing that we have just been talking to, because I agree with the thrust of what you have said and the thrust of the chairman, that this is a program of very real promise.

Do you find that, from the standpoint of the institutions, this is a sufficiently desirable program that if we were to broaden it in some ways, maybe broaden availability, change the hourly rate, some of these things, and at the same time as part of that broadening we could lower the Federal contribution percentage. Do you have any comment to make on that?

As we are wrestling with situations where dollars are limited, we cannot solve them all by saying we will double everything or go on with this or we will expand this and make everything available we have been making available and also create new things.

As we balance the costs, we have had some testimony that this program is so good and so desirable, there is such a wealth or requests for this kind of program, that the thought has been in my mind that perhaps as part of the expansion we could also say the Federal contribution is not going to be at a presently high precentage and maybe drop it to 50 percent or 60 percent and would you have a comment? Would it kill the program?

Dr. KIDD. Well, the only problem I see in that is if the Federal contribution were sharply reduced it would work against those institutions that do not have the matching money, which would, in a sense, discriminate against the students at those institutions and some of them would be among the most deserving and needy.

Now, this is a question of fact and I must say we do not have the facts.

Mr. DELLENBACK. Part of our hope in that might be, you see, to give stimulus to off-campus employment and in doing so open up a new reservoir of money and instead of looking to institutions for this, maybe we could say, "If we broaden where you could use the work-study group, you would have not only the career advantage of giving training where they might ultimately be using whatever their skill might be, but also open up a new supply of money."

Dr. KIDD. Yes, and I think it is particularly applicable to graduate students, those in masters degree programs, for example, and social work and law and programs of that sort where they could provide a real community service that could otherwise not be provided, working with nonprofit institutions in the community.

Mr. DELLENBACK. Dr. Breneman, any comment on that? Would your analysis of the outside field be such that you would think there would still be a wealth of requests for participation in the program if we would make that kind of change?

Dr. BRENEMAN. I think it would depend very much on the discipline and on the degree level. It would be hard to imagine a student in English literature at the graduate level finding very many outside off-campus activities that would be at least related directly to his ultimate career.

Mr. DELLENBACK. Would you find the institution willing to participate insofar as these students in the literature field if they, instead of having to make their present contributions had to make twice as much contribution that they made, would they still want them?

Dr. BRENEMAN. I am not qualified to comment on that. I am not currently employed at a university. Perhaps Dr. Lyman——

Dr. LYMAN. I think the universities, or the unhappy thing that keeps coming up, the universities are much in the position of the Federal Government, that what we add we have to find something to cut out in order to add that. It would be a question for financial aid officers to answer perhaps and graduate deans to answer and maybe Mr. Page could respond better than I, as to whether there would be areas where the very fact of a work-study program would be helpful, that we could find savings here and there to use it.

I tend to view this point as related quite closely to the loans question. In one sense work-study serves a similar purpose in that it helps to sort out those who have serious purpose in their study from those with less serious purpose. The students have to be asked to make a sacrifice, in one case a sacrifice based on futures and in the case of work-study he has to spend some of his time on a job that may or may not be directly related to the education.

It is a highly desirable thing.

Boyd, would you think that in most cases they would be able to find a place with which to find the wherewithal to do this?

Dr. PAGE. I would think particularly in large research institutions, not in all of them but in the ones that specialize in science, there might well be additional opportunity provided from outside for cooperative research programs. I think it might be quite attractive.

On the other side, this could mean that the aid would go to fewer students because institutional funds are limited.

I do think that at least in the science, this might well be something that would be attractive.

Dr. KIDD. Mr. Dellenback, we are now querying a number of universities on this point, what their attitude would be toward more extensive use of work-study and towards a change in the Federal matching money.

Mr. DELLENBACK. Do you realize what the committee is in the process of doing is to try to get our backs not against the wall and needing to have the legislation by June 30, which we so frequently find ourselves facing in this kind of program. We are trying to look at the totality of it and just as we look at graduates and undergraduates, we are also looking at interweaving of grants, work-study and loans and seeing if we cannot come up with a better package because to the student, the real ultimate question is, "Does he have enough dollars to get there in toto from all of these sources, from the family, from institutional help, from all of the programs of the Federal Government." So, one of the thoughts that is going through our minds is this issue of "What can we do to modify work-study to make it really more effective in accomplishing the ultimate goal of helping the student get the education."

So, anything you can make as an additional input, that I would welcome very much.

Dr. KIDD. We will be glad to supply the information we get from the universities.

Mr. DELLENBACK. That will be great.

Dr. KIDD. Certainly it would seem to us, that unless the authorization is increased, the demand from undergraduates is too heavy for this program.

Mr. DELLENBACK. We are already facing this experience in such things as not only the authorization but you are familiar enough with the process to know that we can set up beautiful pie-in-the-sky authorizations and it does not do the job if we don't get appropriations to back it up.

What I am concerned about, though, is that we can be realistic with our authorizations, instead of setting up enough elbow room so somehow the appropriations committee can be persuaded to go there, there is lots of room for them to go, I think we pay the price in this committee by setting such high appropriations that the appropriations committee disregards what we have done and instead of getting a guideline out of what we have come out with after hours of discussions they in minutes come to decide that it is going to be this figure, that figure or something else.

I think we would do education a better service if we try to make authorization levels realistic, that not only we think could be, but what we think should be.

So, we want to look very carefully at authorization levels but not just to say, "Let's double or triple or quadruple or whatever it is we happen to have."

We would decide what we can really use and what we have expectation of getting and then go to fight like heck with the appropriations people to appropriate what we ought to need.

Dr. PAGE. Just a footnote to this discussion. I think you touched on exactly the right point that, increasingly, students receiving fellowships will also be on work-study or assistantships and also borrowing money. Many of us remember that just a few years ago in some of the Federal fellowship programs there were provisions to prevent that sort of thing. I am simply urging that new provision be kept sufficiently flexible and not be considered as a total package.

Mr. DELLENBACK. We are looking for mechanistic cases, for example, have a single application instead of five different sets of applications and have on it enough of what you can extract for this or that program or some other program to take care of the Federal Government's needs as well as the State government's needs, and on, and on, and on, and the more we can simplify the better chances are we can make a real coordinated program.

Dr. PAGE. The other element I tried to emphasize is that for students who for good reason have to come in and out, work-study is ideally designed to accommodate those students. It is difficult to visualize how you could have a fellowship set up as in the past where a student would go away from graduate school and work in industry and work in research and then come back, but work-study is ideally designed for that.

Mr. DELLEBACK. May I ask two questions along the line of really the periphery of what you said or at least take advantage of some of your special knowledge.

We have an internal problem in the Congress, and that is committee jurisdiction.

Dr. KIDD, you know this full well and the rest of you are acquainted with it.

From your standpoint when you plea for a better coordinated role, what would be your reaction to the desirability or nondesirability of the Congress restructuring committee jurisdiction so that instead of having the Subcommittees on Science and Astronautics and Veterans' Affairs, Ways and Means, and Education and Agriculture and everybody else for special aspects of education, what if we consolidated four of these programs in a single committee?

I mean I don't want to scare the witness by the question I ask, but from the standpoint really of your own involvement, would you rather be going to Science and Astronautics for much of what indeed the graduate schools do and to another committee for something else, or would it better if programmatically we have a structured Congress so agriculture, science or astronautics was in a single education committee?

Dr. Kidd. If one approached that question solely from the standpoint of reaching consistent decisions in the legislative branch and followed by decisions in the executive branch that would make a more sensible package out of graduate education and research, then certainly I think some change in structure would be indicated so that you could look at the entire system.

The program that Dr. Breneman outlined of course is really possible only if there is that sort of consolidated approach. The problem which I need not spell out for you is that there are things other than the legislation for graduate education that are involved.

So, I would make my statement on the restricted basis of rational view of graduate education as a whole and in that restricted area it would obviously be easier, I think, to get a set of rationally integrated programs if more of these matters were handled at a single point.

Dr. Lyman. I just want to refer again to a point of my remarks on multiplicity of support agencies. There is a real dilemma here. I think we all recognize as between the desirability of greater coherence and consistency, certainly from the students' end of things, when you talk about fellowships and traineeships in particular, it is difficult to have a whole lot of ways of going at the business of getting support, but at the same time there is the other desirable thing—you don't get everything tied up in one package—so in the field of graduate education, which is constantly changing, and new fields emerge all the time and all fields building in different mixtures, you don't sort of sit on the developments by having a monolithic structure setup to deal with the whole problem.

If it was just a question of a fellowship program, or scholarship program or some other program, the undergraduate level, I think, as you say, has an awful lot going for it, because there the multiplicity of programs can become truly frightening from a student's standpoint, and students do not apply in many cases because they don't know where to go.

So much paperwork is involved and so much conflict between different programs. The graduate level, I think, is much tougher because of the problem of maintaining flexibility in the development field and leaving the mission-oriented agencies in a position to develop graduate research and manpower provision at the same time.

I think it would be pretty tough to do.

Dr. Kidd. Also, this problem arises both in the executive and in the legislative branches.

In the executive branch, one could consider a single point for all graduate education, but I think that one would lose a lot more than one would gain through such a consolidation. It would be superficially rational perhaps, but first you would lose the contact of these programs with the social mission and purpose that you get through alining a graduate program with a specific mission orientation, and you would be putting all of your eggs in one basket and the fortunes of agencies wax and wane and I would be very leery of that.

The analogous situation exists in the Congress. One may get a more rational set of fellowship provisions and in the process of that lose advocates and friends and lose appropriations.

Mr. **Dellenback.** We had a little bit of a concern and you are aware of the fact that as we finish up the study of the National Commission, we, as part of it, had the staff check on a number of Federal programs that were involved and the figure comes out in the area of 380 different Federal programs involved in education.

This is hydraheaded, it is almost impossible to make order out of chaos. It is a series of little tangents and little piece and it is very difficult to coordinate it in sort of what you are pleading for very logically, it seems to me.

Two other things I want to ask. How about the Fund for Improvement of Postsecondary Education? Is it your experience that this would be helpful, or is it being helpful at all so far in stimulating the change you talked of in terms of all of you, Dr. Lyman in particular, about "We need to be reaching forward, we need to be looking to the future as well as the past?" Do you find that your experience with that fund either has already proven helpful or gives promise of proving helpful?

Does anybody wish to make a comment?

Dr. **Breneman.** I can comment briefly. I have questioned the staff of the Fund as to the kinds, the number of proposals they are getting from graduate programs, or graduate program related activities. I gather in the first year they got almost none in that regard. There was some increase this year.

My impression is, as we wrote in the report, that there is a substantial role there for the fund, but I think there is a communications problem. I don't think the numbers of proposals going into them from graduate programs have reached any substantial volume yet.

Mr. **Dellenback.** I think they would have to be stimulated more on your side than their side realistically because the problem at the moment is they are not sitting around for applications pouring in because they have 2,800 and they will be only able to fund 100 out of that.

I don't think at the moment they are trying to stimulate graduate schools to come in with this kind of program, but I would urge you to do it, because to me that fund has some of the great promise for tomorrow in the field of education, because, as was said in one of your pieces of testimony, and I don't recall if it was Mr. Lyman's, that when you start to pay the price it is the innovative that dies, that you have to take care of certain basics, and so when the budgets are being curtailed it is not the basics that you cut out. You don't stop paying the bills and paying the salaries; you don't stop doing the absolute "musts" but you say, "We can cut this program out or defer this program which is the innovative," and that is where the fund for improvement of secondary is meant to go and help with additional knowledge.

Dr. **Page.** I agree with your enthusiasm but I think the graduate community has become aware of it. I know of at least three projects that are now being considered which were invited to be submitted. I don't know of any agency that would have accepted these projects because they are unusual. It remains to be seen what will happen to them.

I think there are many institutions now that are preparing proposals recognizing FIPSE as an appropriate source from which to seek support.

Mr. **Dellenback.** The amount in the budget will go up from $10 million this year to $15 million, and I testified before them urging they go to $20 million instead of $15 million, that this is a limited enough number of dollars in a critical area.

Again I say, facing the temptation to go too many ways. May I ask one further last question: On page 8 of your testimony, Dr. Lyman, you talk in terms of the consideration of special needs of the disadvantaged, and you make some very helpful points about low percentage of at least the minorities in the graduate education and tomorrow this subcommittee is going to be facing the issue of law school admissions, CLEO, and this general concept.

Do you think that it is proper for us to encourage, do you think it is desirable if we try deliberately with special programs to encourage special disadvantaged minority types of such graduate programs? Now, we are here talking about law, but it could be medicine or in other areas of graduate study. Or should we be spreading the dollars on a a different basis than trying to emphasize to give special help to the disadvantaged, whatever that means?

Dr. **Kidd.** The National Board has a group of people working on this extremely complicated problem, and Dr. Breneman might say a word about what is developing there.

Dr. **Breneman.** Our board from its inception has been very strongly insistent about the need to increase the pool of minority individuals trained at the Ph. D. level. I think the university presidents and the departments are feeling this in connection with the affirmative action thrust when they try to hire such individuals and the supply is simply not there.

One comment that Earl Cheit made at the Marco Island Conference is relevant. The reasonable thing to do in this case is to augment the supply side. So we are hard at work on it. We originally were hoping to put the framework of an effective program into the Board's report.

We do feel it is an area that is ripe for consideration. The thrust at the undergraduate level has been going on now for 4 or 5 years. As one of the board members, Herman Branson of Lincoln University, points out, an estimated 40,000 to 50,000 blacks will receive bachelor degrees this year but a woefully inadequate percentage will go into graduate programs. Then we look at specific fields and see the almost total lack of minorities in engineering and physics and the hard sciences. As we began to pursue this topic, it got into the question of "What is the role of the primarily black colleges," and "What is their capacity in graduate study," and "Is it just money that is the solution."

It appears to us it is not just money. That is why we got into these complexities. We simply pulled out of the subject and decided it was so important and complex we were going to have to do a separate report, which we hope to have out in several months. We will be happy to present our findings to you and the committee staff.

Mr. **Dellenack.** Certainly the study of the Commission led us to the feeling that dollars were not the only thing, by any means. There are all sorts of interlocking factors.

Dr. **Lyman.** Our experience at Stanford is interesting to me in that we have not seen in blacks and Chicanos, particularly not in blacks, the same phenomenon we have seen in white majority students who are not in as great numbers going on straight to graduate school as a few years ago. The percentage of our graduates who go straight on to graduate school has dropped fairly significantly in the last few years.

A great number of those people intend to go sooner or later, getting job experience, or what have you, making education the last step, if you like, for awhile. With blacks, the percentage and numbers who want to go on right away are holding up. Here again I think the loan question becomes very important because to a greater extent than is the average, the disadvantaged minority student will already have piled up a debt by the time he or she gets to thinking about graduate school, and to a lesser extent than with the majority whites are they really as ready to undertake the long-term debts. It is a less familiar syndrome to them. It is more frightening and more distressing to think of piling up that kind of indebtedness.

Once again, I think work study has been very successful in this area.

Mr. DELLENBACK. I am inclined to share the feeling of Mr. O'Hara on that. On a line between permitting the debt to go too high for the undergraduate, you do not want to not help, but what looks like help at the moment may turn out to be a creation of a morass and disaster. I do not feel that way about graduates. I think certainly the professions really do open up such additional possibilities that they can also open up possibilities for repayment and I don't think that is true for the undergraduates.

Dr. PAGE. I can give you one specific answer. The Panel on Alternate Approaches for Graduate Education agonized on this for a long time. In the report which I gave to the committee there is a specific recommendation that these inequities be addressed and a positive effort be directed toward bringing in an appropriate number of minority students into graduate education. This is still a very controversial issue. The panel was made up primarily of people from the public sector, some from higher education, but this was their summary of their feeling about the situation.

So at least there is one very possible recommendation annexed to it.

Dr. KIDD. I just ran across the publication relating to the point you raised about the fields of study. This is an ETS publication called "Findings," which just came out. They point out one-third of blacks 1 year after graduation and one-third of whites were enrolled in some program of further education, but the fields were strikingly different. The black students were heavily enrolled in education, about a quarter of them, and engineering and biological sciences, as we said, are the fields attracting the few efficient blacks.

The report points out that although large numbers of blacks are entering post-baccalaureate programs they are not represented proportionately to whites in the fields that will produce future university and college faculties or practitioners in certain professions, notably the law schools, even though the enrollment is going up there.

[The document referred to appears at the end of this day's transcript.]

Mr. DELLENBACK. Thank you very much.

Thank you, Mr. Chairman.

Dr. **Kidd.** I might supplement the remarks that have been made by pointing out that in the light of all the discussions recently about the program of the disadvantaged in graduate school, that no matter what program one would design to be adequate, the existing one is inadequate. That is, the part "D" of title IX provides simply fellowships for the disadvantaged with an authorization of $1 million and no matter what the devices may be, it certainly takes, as we pointed out, more than fellowships because there are questions of motivation and other matters that go beyond simply the provision of the fellowships and we don't have a specific recommendation for amendment of that.

I can't help the committee at this time. But certainly some change is called for in that part.

Mr. **Dellenback.** There have been a number of points that have been very helpful.

Dr. **Page.** May I suggest that Dr. Kidd was quoting and some material I quoted came from this report that just reached my desk yesterday, and there is a tremendous amount of material in it.

Mr. **O'Hara.** It has not reached my desk yet. I will put the staff to work looking for it.

Dr. **Page.** It is very fine.

Mr. **Dellenback.** Dr. Page is well laden with quotations and either you burned the midnight oil last night, Dr. Page, or else your staff helped you very well.

Mr. **O'Hara.** I was interested in some of your citations from that report. You indicate approximately 73 percent of those who indicated an intention to go into graduate study were in fact enrolled. Of those who did not enroll, 20 percent of the men gave as a reason that they could not afford it, and the corresponding figure for women was 29 percent, and for the blacks it was 31 percent. Then you said, "Contrast these figures with the indication that only 2.6 percent of the blacks and 2.4 percent of the women indicated they could not gain admission to the school of their choice."

We may be proving something else with this. We may be establishing that the graduate schools are taking in anybody who applies. You have 90, or in excess of 97, percent of the applicants gaining admission.

Do you think that is a healthy situation?

Dr. **Page.** No; I was aware that that might be subject to what I think may be a misinterpretation. The population they were querying here was students in their senior year who were well qualified, who apparently have all requisites to enter graduate school, and this also includes professional schools, law and medicine, and then they were trying to follow up why those students, also professional, preparing for a professional career, dropped out. This is not an adequate population of anyone coming thinking they would choose to go to graduate school, but people you would fully expect to be there.

Mr. **O'Hara.** I take it as a sample they started off with was 21,000 college seniors, not just the ones with the best grades, but presumably 21,000 randomly selected to go into graduate schools.

Dr. **Page.** And there were only 8,000 of those who said they intended to go into graduate schools.

Mr. **O'Hara.** Apparently of the 8,000 who contended they were going to go into graduate school, indicated they did intend to do that, somewhere in the vicinity of 97 percent of those who applied were admitted.

Is that the kind of admissions rate we have in the Nation's graduate schools?

Dr. Lyman. That would certainly puzzle me. I have not seen the report. It has not reached my desk, or I have not been at my desk recently enough. In medical schools, for example, the percent is down to something like 40 percent or a third are getting in anywhere of those who apply.

In law schools they are having analogous problems. This varies a lot by field and, of course, by students.

Dr. Page. Of course you recognize I am quoting someone else's study and don't know all of the details.

Mr. O'Hara. You don't have a separate figure for men in that one or white men or black men on the admissions thing? Is that in the report or not in the report?

Dr. Page. I think it is in another section. But let me clarify. The figure I gave here was only the percentage of those who gave as a reason they were not in graduate school that they could not qualify for admission.

Now, there may be many others who did not qualify and they gave some other reason.

Mr. Dellenback. I want to be sure about this. You indicate 74 percent of those who indicated they intended to go were in fact enrolled?

Dr. Page. Yes.

Mr. Dellenback. That leaves 27 percent of the base that did not When you say "20 percent of the men who did not enroll," do you mean 20 percent of 27 percent, or do you mean 20 percent of the full base?

Dr. Page. No; of those who were not in.

Mr. Dellenback. Twenty percent of the 27 percent?

Dr. Page. Yes.

Mr. Dellenback. Who did not fully end up; which is a much smaller figure, of course?

Mr. Page. Yes.

Mr. O'Hara. So then can be assume, well, if there are more than two reasons—well, I think I will have to get the report. I am sorry I didn't have it.

Dr. Page. I may well have misinterpreted and, if so, I apologize.

Mr. O'Hara. Well, we don't have it and I am interested in that.

One last comment. We are going to be going into it more tomorrow, but I didn't want you to leave without my expressing my grave reservations over systems of student assistance admission that make distinctions based on race, color or national origin.

I really have very great reservations about that, which I will pursue tomorrow when we take up specifically a program in which that could be a problem.

Dr. Page. May I make a comment? You may not have noticed but when I mentioned to you the report of the panel which made these recommendations, that was not a unanimous recommendation, and some people had serious reservations. My assessment, insofar as I am qualified to judge, is that there has been a shift in opinion among graduate deans very much in the line now that, "Yes, there have been inequities and that we should do what we can to find ways to correct those inequities but admission standards must be based on quality and that this should be judged independently of race or sex."

Mr. O'HARA. I feel that way, too, and want to get into it tomorrow when we take up the CLEO program.[1]

I very much appreciate the testimony of all of you and I assure you that we are going to give the graduate education portions of the Higher Education Act our very careful consideration.

I think we have to do a lot more looking it than we can in one day, but with particular reference to the student assistance provisions of title IX, I think we do have sufficient information to proceed to try to make title IX programs more meaningful to graduate students.

I thank you very much for having come before us and I want to warn you will be asked to come back and talk to us some more.

Thank you very much.

Tomorrow the subcommittee will take a brief break in our current set of hearings to receive testimony on and perhaps to markup, depending on the position of whether or not we have a quorum and the desires of the committee, H.R. 14673, a bill relating to preparation for legal education, to which help allusions have been made today.

On Thursday we will resume hearings on student assistance with testimony related to State and financial assistance programs.

The subcommittee will now stand in adjournment until 9 o'clock tomorrow morning in this room. I hope I am here.

[Whereupon, at 11:40 a.m., the subcommittee recessed, to reconvene at 9 a.m., Wednesday, June 5, 1974.]

FEDERAL POLICIES TOWARD GRADUATE EDUCATION

CHAPTER 1—CONCLUSIONS, RECOMMENDATIONS, AND A POSITIVE PROGRAM

CONCLUSIONS AND RECOMMENDATIONS

1. Graduate education, scholarship, and research occurring within the nation's universities are of immense significance for the scientific, economic, and cultural development of the nation. The flow of new knowledge developed through basic research, coupled with the advanced education of individuals that enables them to contribute new knowledge and apply the research findings, are essential to such basic social concerns as eliminating disease, feeding the world's population and controlling its growth, developing new sources of energy, controlling environmental pollution, maintaining the competitiveness of our industries, understanding alleviating problems of urban life—including housing, mass transportation, and racial tension—and expanding our knowledge and understanding of history, goverment, economics, art, music, and religion. There is hardly a sphere of life that is untouched or unaffected by graduate education and research, although the universities that perform these activities are only a small percentage of the approximately 10,000 institutions of postsecondary education. The continuing contributions to society that can be expected from graduate education and research indicate a clear national interest in ensuring their continued strength, vitality, and flexibility.

In addition to their value to society, graduate education, scholarship, and research are of central importance within the university. The most basic task of the university is *learning*, in the sense of transmitting the known and discovering the new. The unity of the university derives from its commitment to learning, which is the foundation of all of its actiivties, whether in undergraduate education, graduate education, research, or public service. Graduate education and research are not mere appendages to the university, but are instead its defining element, infusing a spirit of inquiry and a concern for scholarship throughout the institution.

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[1] See separately printed hearing entitled "Legal Education Opportunity," before this subcommittee, June 5, 1974.

2. The nature of graduate education and research requires the federal government to assume a central role in financing these activities.[1] The labor market for highly trained scientists and scholars is national as well as local and regional. Knowledge is part of the public domain and the advancement of knowledge is of national or international consequence. *Neither the private market nor local areas or states can be expected to bear the whole burden of financing graduate education and research when the benefits are diffused so widely.*

The federal government also bears a special responsibility for graduate study and research because of its broad obligation toward the economic and cultural development of the nation, which is heavily dependent on highly trained and broadly educated people and on the cultivation of knowledge and the arts. The federal government, moreover, employs the services of a large number of scientists and scholars, both directly and indirectly, and therefore has a special interest in their education. The federal government is the only agency that can redress inequalities and imbalances among geographic regions in the availability of facilities for graduate education and research, which are of great importance in regional development. Finally, the federal government is the agency best equipped to deal with economic inequalities among persons that affect opportunity for advanced study. The graduate schools with their educational and research programs are a *national resource* of the first order, and the role of the federal government in their maintenance and advancement is critical.

3. The stress placed on the importance of federal support for graduate education and research in this report does not mean that federal aid should replace either private giving or state support. The $1.6 billion in private gifts to colleges and universities in 1971–1972 is a central and indispensable source of revenue for many institutions, and provides the margin for excellence in many others. It is not only the amounts of private gifts but the fact that they provide a countervailing force for state and federal funds that is important. With regard to state support, the federal government cannot be expected to assume responsibility for the basic institutional support of state universities. Accordingly, the health of the important publicly supported segment of graduate education depends decisively on the basic state appropriations for the public universities. No foreseeable change in the purposes or amount of federal support will change this basic dependency. Indeed, the trend toward specific state support of private graduate education, developed most notably in New York state, points toward an expanded financial role for the states.

4. Federal support for basic research in universities and for graduate students grew rapidly from post-World War II until 1968. In the last five years, however, funds for research have declined slightly in constant dollar terms while federal fellowship and traineeship support has fallen dramatically from over 50,000 students supported in 1968 to a projected 6,600 in FY 1974.[2] In addition several federal programs that provided semicategorical institutional support linked to graduate education and research have been eliminated or are being phased out. (For details, see Chapter 2 and the Appendix Tables.)

In retrospect, it is clear that the rapid growth of federal support, particularly in the early and middle 1960's, could not have been expected to continue. However, the rapidity and severity of federal cutbacks in the last five years will, if continued, undermine the nation's capability for high quality graduate education and research. A reassessment of current federal practice for the purpose of developing a sound federal policy oriented toward the requirements of the 1970's is clearly called for.

5. As the graduate schools adjust to the changed circumstances of the 1970's, national efforts should be directed toward achieving the following goals:

Enhancing the effectiveness and efficiency of graduate education, scholarship, and research.

Strengthening the national structure for graduate education, scholarship, and research by supporting strong programs currently in existence in all regions and ensuring that the most talented students are not denied access to these programs.

Discouraging the proliferation of graduate programs, while ensuring that universities have the necessary resources to develop programs in new fields of study and to meet new social needs. In a period of limited resources for higher education, careful review and elimination of weak graduate programs is one potential source of the resources required for such new programs.

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[1] National Science Board, *Toward a Public Policy for Graduate Education in the Sciences* (Washington, D.C.: U.S. Government Printing Office, 1969), p. 37.

[2] Federal Interagency Committee on Education. The 1974 estimate is based on the FY 1974 budget, not final appropriations.

Ensuring that the supply of persons with master's, professional, and doctoral level education is in reasonable balance with the long term demands of a complex, technological society.

Sustaining a flow of new research findings, basic and applied, required for both the cultural and material well-being of the nation.

Protecting the freedom and the adaptive capacity of the nation's universities.

Ensuring the responsiveness of graduate education to the needs of society.

Ensuring that graduate education contributes to the national commitment to eliminate discrimination based on race, sex, age and socioeconomic status.

Stimulating changes that will encourage the most effective contribution of graduate education and research to the solution of urgent national problems.

Encouraging responsiveness to the needs of students, including the development of graduate programs that serve part-time and older students, as well as the needs of urban residents.

Realization of these goals is complicated by several problems and unresolved issues currently facing graduate education, including:

Labor market prospects for doctorates.—Although we reject forecasts of an impending "Ph.D. glut," graduate schools do face major adjustment problems to a changing labor market (pp. 27–29).

Financial pressures.—Marked reductions in federal government support for basic research, graduate students, and graduate institutions in the last five years threaten, if continued, to erode the quality of graduate education and to undermine the nation's research capability (pp. 29–36).

Access to graduate education.—Although it has not become national policy to guarantee access to graduate education, certain invidious barriers that have operated to restrict access for minority group members, for women, and for older students must be eliminated (pp. 36–40).

Planning, management and cost analysis.—Improved management of resources is imperative for all higher education, including graduate education and research but the current interest in developing unit cost measurements poses a particular problem for graduate eductaion because of the interrelated nature of "inputs" and "outputs" (pp. 40–41).

Adjustment problems to the steady of the 1970's.—After more than a decade of rapid growth, graduate education faces a prolonged period of slow (or no) growth which poses such problems as determining the "proper" national distribution of resources (geographic dispersion versus concentration), maintaining the vitality of the disciplines in an era of limited faculty expansion and turnover, and ensuring that the adjustment process to reduced federal support is directed toward the goals outlined at the beginning of this section (pp. 41–44).

The lack of coordination among federal policies toward graduate education.—The absence of coordination and stability complicates the planning process for universities, and has become particularly severe in the recent period of abrupt change in many federal policies affecting graduate education (pp. 44–45).

6. Recent shifts in federal policies toward graduate student support have significantly reduced the number of students supported by federal fellowships and traineeships and increased the number for whom self-support and loans are the major source of financing. The basic policy question is whether, and to what extent, these trends should be continued.

In our judgment, the benefits of graduate education are both private and social, accruing to the individual student and to the state, region, and nation. The argues for pluralistic sources of student finance, with fellowships, traineeships, teaching and research assistantships, loans and family resources, and subidized tuition all playing a part.

For the 1970's we endorse the following principles for graduate student support:

Graduate tuition should be maintained at levels below the "full cost" of graduate education in recognition of the broad social benefits that result from graduate education (pp. 47–48).

Assuming no major increase in graduate tuition, federal fellowships and traineeships should *not* be increased to their 1968 highs. Neither should they be totally phased out, however, which is the direction of current administration policy. Three specific rationales for specialized federal fellowship and traineeship programs appropriate to the foreseeable needs of the 1970's lead to distinct federal programs for support of graduate students (pp. 49–54):

Merit fellowships.—A limited number of portable fellowships, awarded in national competition on the basis of academic merit, to be used for doctoral study in any academic discipline. These fellowships would be designed to recognize individuals with outstanding intellectual potential and to ensure that no financial obstacles prevent them from attending graduate school. The number of awards should not fluctuate in response to labor market conditions.

Specialized manpower and research programs.—National programs which provide traineeships to support students (or postdoctoral researchers) in new programs oriented toward such urgent social problems as energy supply, conservation, and distribution; health care delivery; and the manifold problems of urban life, including housing, mass transportation, and racial tension. In the absence of traineeship support, the trained manpower and research efforts necessary to work toward solution of these national concerns will not be forthcoming in adequate number, quality, and time. The traineeships would be awarded by the institution (laboratory, institute or department) responsible for the program, and the students would use the award only at that institution. The number of awards should be adjusted to the best possible estimate of future manpower and research requirements in the special areas, and would have strict time limits, subject to review.

We strongly endorse recent United States congressional action in appropriating funds for FY 1974 to continue the National Institute of Health/National Institute of Mental Health (NIH/NIMH) training grant programs.[3] These programs incorporate many of the objectives in the areas of biomedical research and health care of our proposed program.

Minority Group program.—A program to promote participation in graduate education for historically disadvantaged minority groups will be specified in a forthcoming report. Provision of financial support for minority group students will be a major part of the program.

A specific proposal for funding levels of two of these three programs is contained in the final section of this chapter.

At this time, federal fellowships specifically for the purpose of stimulating additional students to prepare for academic careers are not required. For this reason, and in light of the more essential fellowship and traineeship programs recommended above, we do not recommend funding for the fellowship authorized under Title IX, Part B, of the Education Amendments of 1972. The authorization for these fellowships should not be allowed to expire, however, since funding of these programs may be necessary if other sources of student support proves to be inadequate (pp. 54–55).

A national program of grants for graduate students based on financial need and modeled on the undergraduate Basic Opportunity Grant is *not* endorsed, for both philosophical and practical reasons (pp. 48–49).

Research and teaching assistantships are assumed to be important continuing sources of graduate student support.

Loans should continue to be a significant component of a total plan for graduate student support, but there are limits to the utility of loans. In individual cases, loans should not be so large that highly capable students are discouraged from undertaking graduate work. Several technical problems, moreover, in the terms, conditions, and administration of existing loan programs prevent their expansion much beyond current levels. These problems are sufficiently difficult that substantial analysis, debate, and negotiation will be required to resolve them. Consequently, policymakers should not expect existing loan programs to continue to take up the slack caused by reduction of other support programs (pp. 55–60).

The Education Amendments of 1972 should be amended to increase the individual loan limit from $10,000 to $15,000, and to extend the repayment period from 10 to 20 years. Experimentation by individual universities with variable annual loan repayment schedules and with methods for taking financial need into account should be encouraged (pp. 58–59).

7. The national research effort is conducted in universities and colleges, private industry, government agencies, and in various specialized research institutions. The emphasis in universities is primarily on *basic* research (as contrasted with

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[3] Due to the recent passage of the FY 1974 appropriations bill for the Department of Health, Education and Welfare and the Labor Department (complicated by changes in budget categories, impoundment uncertainties, and administrative provisions), the precise allocation of funds to the NIH/NIMH training grants program and the NIH general research support program remain unclear at this time. Reference to current support levels of these programs throughout this report should be regarded as tentative until final verification.

applied research and development), and most of the nation's basic research is conducted in universities. The federal government provides over 60 percent of the funds for all basic research in the United States, and over 50 percent of federally funded basic research is conducted in universities and colleges.

The process of graduate education is inextricably linked with research, since most doctoral programs (and many master's degree programs) culminate in independent research, i.e., the dissertation. In many fields, graduate students serving as research assistants make important contributions to the production of research. Moreover, to be effective teachers, faculties must themselves engage in active scholarship and research, particularly at the level of graduate education.

The essential place of research in graduate education, and the central importance of the federal government in supporting basic research in universities, make federal research policies of utmost significance to graduate education. Unfortunately, there are no clear-cut guidelines for determining the "optimal" scale for the national effort in basic research. Growth at the rate experienced in the early 1960's (average annual increases in excess of 15 percent) could not be maintained forever; on the other hand, restricting basic research to what was essentially no growth in real terms, as in the last five years, seems unwise as a long-term policy. Our nation—and the world—face many serious problems relating to economic productivity, the environment, energy, resource depletion, the cities, health services, education, poverty, unemployment, inflation, international affairs, crime, and social sciences, and humanities is needed, and highly trained physical sciences, social sciences, and humanities is needed, and highly trained professional people are needed who depend on a research environment for their education. It is unlikely that the present level of support for basic research is too high; on the contrary, there are indications that it may be too low.

The report advances two recommendations:

Federal funds for support of basic research should grow, *at a minimum*, at the same rate as the growth of the gross national product (GNP) (pp. 67–68).

To implement the first recommendation, whenever the federal mission-oriented agencies shift priorities and reduce their support of basic research, the research budgets of the National Science Foundation and the National Foundation for the Arts and Humanities should be increased by offsetting amounts in order to maintain stable and moderate growth of total federal support for basic research (pp. 67–68).

8. Federal support of graduate education and research has been concentrated on financial aid to students and categorical grants for research and training programs. Broader institutional support has been provided largely by states, by private giving, and by student tuition. Although this federal policy of specifically targeting support for graduate education and research has sometimes worked against the development of the universities as coherent and balanced institutions, *we believe that the division of responsibility for higher education which has been evolving over the past 25 years is fundamentally sound, namely, that the states and the private sector assume responsibility for basic operation of the institutions and that the federal government assumes increasing responsibility for the financing of students, research, and selected institutional programs in the national interest.* The federal government has provided semicategorical institutional aid in the form of cost-of-education allowances accompanying fellowships and traineeships, supplemental aid accompanying research grants, development grants, and grants and loans for buildings and equipment—but most of these programs have been substantially reduced or phased out.

We recommend the following program:[4]

Cost-of-education allowances accompanying existing and recommended federal fellowships should be continued and increased in amount to reflect the rapid cost increases that have occurred in the past decade (p. 77).

National Science Foundation (NSF) and NIH research supplement grants complementing federal project grants should be continued (p. 77).

The recommended specialized manpower and research programs would include funds for associated institutional costs in addition to traineeship support. These grants, awarded through the federal mission-oriented agencies, would be similar to the NIH training grant programs, with the institutional support component used for such expenses as special equipment, renovation of facilities, and salaries for faculty and support staff (pp. 77–78).

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[4] Recommended funding levels for these programs are contained in the final section of this chapter.

Funding of the general institutional support provisions of the Education Amendments of 1972 (Title X, Sec. 1001) should be based on a separate assessment of the needs of all sectors of postsecondary education (p. 78).

9. The complexities inherent in university-federal government relationships create a need for improved forms of analytical and policy coordination at the federal level:

We strongly emphasize the need for improved information and analysis as a critically important first step in the long run process of developing sound, flexible, and responsive policies to guide university-federal government relationships. The American Council on Education should convene conferences to discuss and develop a framework for analysis and to allocate responsibilities along specific private and public groups for securing consistent and timely data. The operation of an improved information and analytical structure would require additional funds, and Congress would, in our judgment, be wise to supply the necessary resources for an improved system (pp. 81–83).

We urge the Science Adviser to call together the heads of the major federal agencies involved in support of graduate education to discuss methods for anticipating and minimizing the harmful effects upon universities, graduate education, and research caused by sudden changes in federal policy and in levels of funding (pp. 83–84).

We support the current efforts in Congress to introduce a greater degree of systemization into the appropriations process and to redistribute committee assignments in both House and Senate to bring educational matters together more coherently in the House Committee on Education and Labor and in the Senate Committee on Labor and Public Welfare (p. 84).

We recommend the creation of a Joint Education Committee, similar to the Joint Economic Committee, which would have a role in education and dissemination, without considering substantive legislation (p. 84).

10. State and federal officials have expressed a desire for procedures to develop standard and comparable cost figures for programs of higher education. A number of unresolved and very complex analytical problems confront this effort at the level of graduate education and research, and existing techniques for generating such cost figures are not adequate. This topic is considered in detail in a supplement to this report by Frederick E. Balderston of the University of California at Berkeley (pp. 87–109).

A POSITIVE PROGRAM

The main elements of our positive program for federal policy toward graduate education are summarized below, together with an estimate of costs. This program has been developed in light of the currently existing federal programs and levels of support for graduate education and research. We believe that our program and recommendations will strengthen the national interest in graduate education and research by improving those federal programs which are presently inadequate, by pointing out some of the existing programs which have proven to be particularly effective and productive, and by promoting the federal responsibility in other areas which are in the national interest.

It must be stressed that these recommendations are not based on a "scientific formula" which produces a uniquely desirable level of support; rather, they are based on levels of support that are reasonably related to the goals and principles spelled out in this report.

GRADUATE STUDENT SUPPORT

1. *Merit fellowships*, to be awarded in national competition on the basis of academic excellence, providing fully portable, three year support and available for study in all acedemic disciplines. Each fellowship would be accompanied by a cost-of-education allowance, accepted in lieu of tuition and applied toward the institution's cost of providing the graduate training.

We propose 2,000 new awards per year. This means that the number of awards would be equal to about ¼ of 1 percent of the seniors graduating from college each year. Since the National Science Foundation currently awards 500 such fellowships per year in the physical, biological, and social sciences, our recommendation calls for an additional 1,500 awards annually. A counterpart program covering the humanities should be established in the National Endowment for the Humanities, with the total number of awards apportioned between the two agencies in relation to the size and number of eligible disciplines under their purview. Assuming an average stipend of $3,500 per student and a cost-of-education allowance of $4,500,[5] when fully funded, the program would support 6,000 students at an annual cost of $48 million (Table 1).

TABLE 1.—MERIT FELLOWSHIPS

Value year	Duration, years	Total program (new and continuing awards	
		Number of students per year	Total annual costs
Terms per student:			
$3,500 stipend	3	6,000	$48,000,000
$4,500 allowance to institution [1]			

[1] Cost-of-education allowance in lieu of tuition to be applied toward the institution's costs of providing graduate training.

2. *Specialized manpower and research programs*, providing 5-year grants to universities, and enabling them to develop high priority programs for research and graduate training directed toward solution of urgent national problems. The grants would include graduate student (or postdoctoral) support in the form of traineeships, and funds provided to the institutions for associated program costs such as faculty salaries, equipment, and support personnel. The grants would be awarded to universities on the basis of national competition.

Approximately 70 new grants per year should be awarded over a 3-year period, reaching a steady-state level of roughly 200 projects. Based on prior experience with this form of support, $300,000/year per project would be a reasonable estimate of average project costs. The total annual investment would therefore approximate $20 million the first year, $40 million the second, and $60 million/year when the full program level is reached (Table 2).

TABLE 2.—SPECIALIZED MANPOWER AND RESEARCH PROGRAMS

Value per year [1]	Duration, years	Total program (new and continuing awards)		
		Institutional awards	Number of students per year	Total annual costs
Award to institution: $300,000	5	200	[2] 5,000	$60,000,000

[1] Approximately 50 percent of the funds would be used for support of predoctoral students (or postdoctoral researchers), including tuition, and 50 percent would be applied toward the institution's cost of providing the program.

[2] Institutions would be permitted to support postdoctoral researchers as well as graduate students according to their program needs.

Approximately half the funds would be used to support both graduate students and postdoctoral researchers. Up to 5,000 predoctoral students could be supported on these programs at full funding levels.

3. *A minority group program*, designed to promote successful participation by historically disadvantaged minority groups in graduate education. Provisions will be specified in a forthcoming report of NBGE.[6]

COMPARATIVE NOTE ON STUDENT SUPPORT

In 1968 over 51,000 graduate students were supported on federal fellowships and traineeships; under the program recommended above, up to 11,000 students per year would be supported, a level roughly 80 percent below the 1968 high. If the NIH/NIMH training grant programs are added in, more than 60,000 students received financial support from federal fellowships, traineeships, and training grants in 1968. This compares with approximately 20,000 students who would be supported under our recommended program plus the recent appropriation for the NIH/NIMH programs.[7]

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[5] For discussion of this figure, see p. 13.

[6] Title IX, Part D of the Education Amendments of 1972 authorizes graduate fellowships for persons of ability from disadvantaged backgrounds, with a maximum of 500 fellowships and $1,000,000/year allowed. Our recommendation regarding this legislation will be included in the forthcoming report.

RESEARCH SUPPORT

We propose that federal support for basic research should grow, *at a minimum*, at the same rate as the growth of GNP. Table 3 shows the difference between actual expenditures and recommended expenditures that would have occurred had this recommendation been in effect since 1968.

TABLE 3.—FEDERAL EXPENDITURES FOR BASIC RESEARCH

Year	Actual expenditures		Expenditures under NBGE recommendation		Difference (millions)
	Amount, (millions)	Percent of GNP	Amount, (millions)[1]	Percent of GNP	
1968	$2,354	0.27	$2,354	0.27	------------
1969	2,398	.26	2,542	.27	+$144
1970	2,474	.25	2,730	.28	+256
1971	2,416	.23	2,921	.28	+505
1972 (estimate)	2,525	.21	3,149	.27	+624

This recommendation should not be applied retroactively; the above table is for illustration purposes only. We do propose, however, that our recommendation be applied from this time forward.

INSTITUTIONAL SUPPORT

1. *Cost-of-education allowances* accompanying each federally supported fellowship should be increased to $4,500/year to reflect in part the rapid cost increases that have occurred in the past decade.[8] The allowances should be reviewed periodically and increased when necessary to maintain their value in real terms. These allowances would be applicable to the 6,000 merit fellowships.

2. *NSF and NIH research supplement grants* should be maintained, with funding levels set as a modest percentage of federal research project grants. We endorse the FY 1974 Congressional appropriation of approximately $50 million[9] for the NIH General Research Support Grant Program and recommend that this funding level grow modestly as federal support for research increases. The current level of support for the NSF Institutional Grants for Science ($6.9 million) should be increased to roughly $20 million for FY 1975 to restore the proportion of institutional-to-project support that prevailed in the late 1960's before the phase out began.

3. *Specialized manpower and research programs* contain an institutional support component for costs associated with the programs. Roughly 50 percent of the recommended annual funding level of $60 million (Table 2) would be applied toward institutional expenses.

This chapter is, necessarily, only a brief outline of our principal conclusions and positive program. Subsequent chapters contain additional conclusions and recommendations which we believe are important to an effective federal role in graduate education and research. A number of other issues are also identified as being of national concern, although a direct federal role is not proposed.

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CHAPTER 4—GRADUATE STUDENT SUPPORT

Graduate students meet the costs of tuition, fees, books, and living expenses in a variety of ways. Typically, students or their spouses earn some money while enrolled or during vacation periods; they draw on their own or their family's assets; some receive fellowship grants, and others borrow. To provide a factual backdrop for the discussion which follows, some salient facts from NSF surveys of graduate student support in over 2,700 academic departments will be useful (Table 7).[1] Two trends in this large sample are of major significance. The first is a 40 percent decline in the number of students who secured their major support from federal fellowships and traineeships over the period 1969–1972. The second is a 23 percent increase in the number of students for whom self-support was the major source of financing. Self-support means employment (of the student or the spouse), loans or family assistance. There has thus been a very substantial shift over a 4-year period from support of graduate students by society through fellowships to self-support through gifts, loans, and earnings.

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[7] On the basis of past experience, we estimate that approximately 9,000 predoctoral students would be supported by the level of funding in the FY 1974 appropriation. (See footnote 3 in this chapter for qualification.)

[8] To offset inflation since 1963 when the figure of $2,500 was established, the allowances would have to be raised to $3,750. At current rates of inflation, the difference between $3,750 and $4,500 will be reached in less than three years.

[9] See footnote 3, p. 6, for qualification.

TABLE 7.—CHANGE IN SOURCES OF MAJOR SUPPORT FOR FULL-TIME GRADUATE STUDENTS, 2,706 ACADEMIC DEPARTMENTS IN THE SCIENCES AND ENGINEERING, 1969–72

Sources of major support	Number of students using source(s) 1969	Number of students using source(s) 1972	Change, 1969-72 Number	Change, 1969-72 Percent
Federal fellowships and traineeships	25, 558	15, 271	−10, 287	−40. 0
Other fellowships	11, 728	10, 492	−1, 236	−10. 0
Research assistantships	27, 690	26, 713	−977	−3. 3
Teaching assistantships	31, 518	33, 547	+2, 029	+6. 3
Self-support	23, 903	29, 538	+5, 635	+23. 4
Other	8, 935	8, 820	−115	−1. 0
Total	129, 332	124, 381	−4, 951	−3. 8

Source: National Science Foundation data from "Survey of Graduate Student Support." Comparable data provided by 2,706 academic departments. Data include students in natural and social sciences and engineering but not in humanities or professional schools.

This chapter is concerned with aspects of graduate student aid that are pertinent to federal policies over the next few years. The first section considers the rationale for federal fellowship and traineeship support, while the second section examines the feasibility of relying on loans as a major source of support for graduate students.

THE RATIONALE FOR FEDERAL FELLOWSHIP SUPPORT

Much of the public interest in subsidizing graduate education derives from the belief that such training yields national benefits not wholly captured by the people educated. These are manifest in a more productive labor force, economic and social leadership, and broad advancement of the culture. The existence of such benefits argues not for fellowship programs that cover only a fraction of all graduate students; rather, it argues persuasively for providing subsidies to graduate schools to that the charges to all graduate students will be less than the full cost of producing their graduate education. The charges imposed upon potential graduate students must not be so excessive as to discourage large numbers from enrolling in graduate schools, thereby losing the potential social benefits from their advanced education.[2] (In principal, this goal could be accomplished by giving all students fellowships, but that would simply be an administratively expensive way to accomplish a reduction in net charges.) The rationale for selective fellowships, not available to all, must be one that distinguishes on the basis of some public purpose between those receiving grants and those excluded. Among the rationales that have been suggested are those associated with "social mobility," "specialized manpower and research requirements," and "merit." These are discussed in turn.

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[1] The data in Table 7 are based on a large sample of 2,706 academic departments in the physical biological, and social sciences, and are broadly representative of general trends. The NSF departmental surveys from which the data were taken are the most detailed sources of information on graduate student support available. Since the data are provided by department chairmen, the major inadequacy of the surveys are funds, such as the G.I. Bill, which are dispersed directly to the student and do not enter the university's accounting system.

[2] Although we believe that graduate education yields national benefits, precise measurement and evaluation of the magnitudes involved have not been possible. Judgments on tuition levels thus retain an important political dimension.

SOCIAL MOBILITY

Many people believe that undergraduate aid should provide access to higher education for needy students and by analogy that similar aid should be available to graduate students. Actually, the two situations are not wholly comparable. The reasons for giving graduate fellowships are different from those for giving grants to undergraduates. The rationale for giving grants to needy *under*graduates is based on the following:

1. The belief that if such students were treated like everyone else, if they faced the same tuitions and had the same aaccess to loans, they would enroll and persist in college at a much lower rate than the rest of the population; and
2. The belief that such differential enrollment rates would be undesirable because the sons and daughters of low-income families would be effectively barred from positions of high status, which would be filled disproportionately from relatively wealthy families. "Upward mobility," regarded as an important social value, would be effectively curtailed.

These two considerations justify basing grants to undergraduate students on their parents' economic positions. The purpose is to reduce the cost of college to young men and women from low-income backgrounds. Does this justification apply as well at the graduate level? Should we have a grant program based on the economic status of parents of graduate students?

The social mobility argument is weaker at the graduate level. First, it is plausible to argue that 17-year-old high school graduates, having had little contact with highly educated people, no contact with legitimate uses of credit, and no firm career plans might resist entering college unless they receive substantial grant support. With some exceptions to be noted subsequently, however, these arguments are generally less convincing in the case of 22-year-old, college-educated persons who have planned careers at least to the extent of having chosen fields for graduate study.

Second, even if college-educated students from low-income homes would fail to enroll in graduate studies because of a lack of grant assistance, the consequences of such a failure for mobility and poverty elimination are not necessarily adverse. College graduates are not likely candidates for poverty, and the difference in prospects for positions of high status between college graduates in general and graduate-trained persons is small. For the most part, then, the most that need-based graduate fellowship assistance can accomplish is to move some students from low-income backgrounds up a notch *within* the middle-to-upper middle income range.

Perhaps the most persuasive reason for not undertaking a large need-based grant program at the graduate level, however, is the difficulty, both practical and philosophical, of linking such aid to the comparative financial status of parents of graduate students. Many graduate students are in their middle or late twenties, are often married and have families, and are clearly independent of their parents. It is hard to see how a national program, modeled on the undergraduate Basic Opportunity Grant concept, could be applied fairly or uniformly given the wide age range of graduate students.

MINORITIES

One group for whom the above argument may not hold is disadvantaged minorities (blacks, native Americans, Chicanos, and Puerto Ricans). Part of their reluctance to enroll in graduate study is due, understandably, to the urge to earn money quickly that is common to many first-generation college graduates. Part of the reluctance is also due to cultural factors. Minorities largely attend colleges where graduate study is not encouraged, and they are often unfamiliar with careers based on graduate education and regard these careers as not open to them. Moreover, the stability of our society does depend in part on our making progress in raising the proportion of minority people pursuing certain careers for which graduate education is prerequisite, and only by increasing their numbers in the professions will we be able to tap a large reservoir of unused talent. Examples of two professional fields where minorities are underrepresented are medicine and college teaching. Unless the proportion of minority persons in these fields rises, our society will be worse off. This will be especially so if we continue to insist on affirmative action programs for college faculties, without ensuring an adequate supply of trained minorities to make such programs viable.

We are convinced that it is important for the federal government to play a role in providing financial support for minority group participation in graduate education. Preliminary investigation has revealed, however, that the precise mechanisms for making such support effective are not simple or obvious, and a separate report on this subject is planned for publication in 1974. That report should be considered as completing this section of the present report.

SPECIALIZED MANPOWER AND RESEARCH PROGRAMS

In an earlier report, we argued for allowing the labor market to determine the allocation of labor and career training,[3] but there are instances where market forces will not produce the research and trained manpower in the volume and with the required characteristics in time to meet social needs. For example, the federal government may embark upon a large-scale program to develop alternative energy sources, requiring new clusterings of research talent and advanced training facilities. The long lag that would occur before market forces generated the necessary centers for research and training would impose heavy (and unnecessary) costs upon society.

In the past, purposeful efforts to combine a stimulus to research with training programs have been most prominent in the biomedical field. New areas of research—such as molecular biology, biophysics, and steroid chemistry—have been stimulated by federal grants, which provided in a single package funds for fellowships, specialized research equipment, research supplies and renovation of facilities, as well as salaries for research assistants, postdoctoral researchers, and for faculty. Such support, distributed on a competitive basis, is a powerful and efficient means for hastening the development of a field of investigation in order to create new centers of strength. This mode of support can be adapted to other areas.

There are now urgent pressures to produce information, ideas, and experts in fields where the knowledge and the trained people prerequisite to a solution do not exist. New knowledge and trained people are urgently needed to deal with the problems of energy supply, conservation and distribution; the full array of difficulties that afflict our cities, including special problems of urban housing and transportation, the problems of racial tension and conflict, and the delivery of health care. Obviously, more than new knowledge and trained people are needed to solve these problems, but they will not be solved without them. Government action is needed, as it has been taken in many fields over the past two decades with conspicuous success. Institutions of higher education have reacted and adapted to national needs as expressed through the actions of Congress in passing federal laws and appropriating funds.

Under these circumstances, a set of federal programs in specifically designated, limited areas is required which will give support to the research and advanced training base of the fields in question. In addition to stipends for graduate students and/or postdoctoral researchers, the grants would provide support for necessary research equipment, faculty salaries, supporting staff, and renovation expenses. To ensure that such federal programs are not overexpanded and continued too long, they should be given a definite time limit, subject to review. These special programs are not a substitute for the market, but are intended to smooth transitions and thus need strict time limits. A careful expansion of federal aid for graduate education and research in these critical areas, monitored carefully to ensure that needs are real and that the programs of federal aid are productive, is a necessary part of a national effort to deal seriously with urgent domestic concerns.

Several features of these programs should be stressed. First, the volume of federal dollars and the number of graduate students supported will fluctuate over time as the needs of society change. Second, since the rationale for such programs is based in part on the need for new knowledge, maximum flexibility in staffing the programs should be encouraged. In particular, the use of postdoctoral researchers in place of graduate students should be allowed, with the decision made at the program level. Third, funds for the programs and administration of the competitive award process would be lodged in the relevant mission-oriented federal agencies, e.g., the Environmental Protection Agency for environmental programs, NIH for health-related programs, the United States

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[3] National Board on Graduate Education, *Doctorate Manpower Forecasts and Policy*, *op. cit.*

Department of Transportation for programs focused on problems of urban transportation systems. Fourth, the programs need not (and rarely would) lead to the development of new academic departments. Instead they would serve to bring together professors and graduate students well-trained in basic disciplines for purposes of concentrating on solutions to problems requiring an interdisciplinary approach. The goal is not to foster new (and faddish) Ph. D. programs that lack a base in solid, underlying disciplines, but rather to provide an incentive for well-trained individuals to work together in flexible structures that transcend departmental boundaries on problems requiring the insight of more than one discipline. Graduates of such programs could be expected to carry with them a problem-solving orientation and a respect for the contributions that several disciplines can make to such efforts.

These targeted research and training activities illustrate with particular force two principles underlying well-designed programs of federal support for graduate education. The first is the tightly interlocked nature of advanced education and research. The second is the need to provide foods, not only for student support, but also for the university which offers the advanced training. The students or postdoctoral researchers who can learn best and contribute most in special areas of research must be carefully selected on the basis of background, motivation and intelligence, and support funds must be available in the volume and with the timing required for the effective development of the total effort.

We strongly endorse recent United States congressional action in appropriating funds to continue the NIH/NIMH training grant programs, which accomplish many of the objectives in the areas of biomedical research and health care of our proposed program. Continued funding of the training grant programs with modest annual increases and with continuous peer review of the individual grants would be, in our opinion, wise public policy.

For the new programs to be funded through other federal agencies we offer the following guidelines:

The grants should vary considerably in size but average approximately $300,000 per year, with the expectation of 5-year funding, subject to review.

With considerable individual variation, roughly 50 percent of the average grant should be allocated for graduate student and postdoctoral stipends (including tuition for the graduate students), and 50 percent for institutional expenses required to mount the new program. If the average graduate student received a $3,500 stipend and if tuition payments averaged $2,500, requiring $6,000 per graduate student, the average grant could support 25 graduate students per year. The use of postdoctoral researchers, with stipends averaging $10,000, would reduce the number of graduate students supported accordingly.

Although the total volume of such grants would fluctuate from year to year as national requirements change, we anticipate that approximately 200 grants per year should be supported once all agency programs have been started. This would require annual expenditures of approximately $60 million and would support a maximum of 5,000 graduate students per year (less if postdoctoral researchers were employed).

The grants should be phased in over a 3-year period, with roughly 70 new programs funded each year until a level of about 200 grants is reached. Expenditures in the first year would be $20 million, $40 million in the second, and $60 million in the third and subsequent years.

Federal agencies that should find value in supporting such programs include (but are not limited to) the following: Atomic Energy Commission, National Science Foundation (particularly in the Research Applied to National Needs program), Department of Health, Education, and Welfare (including National Institute of Education and United States Office of Education), Environmental Protection Agency, Department of Transportation, Department of Housing and Urban Development, Department of Labor, National Endowment for the Humanities, and the National Aeronautics and Space Administration.

MERIT AWARDS

In addition to the previous two programs, a strong case can be made for a program of federal fellowships based on undergraduate academic merit. To ensure that the most intellectually gifted young people in each college graduating class have no financial barriers to attendance in the graduate school of their choice, to encourage their attendance, and to enhance the tone of both undergraduate and graduate education by providing recognition for high intellectual accomplishment, a limited number of portable "merit fellowships" can be justified. American society confers awards, from Presidental Medals on down, for outstanding performance in a great many endeavors. At present, there are few available ways for the United States to confer honors for excellence in undergraduate work, at least on a national level.[4] A nationally competitive fellowship program is a sensible way to convey the value and significance that the nation attaches to outstanding undergraduate academic achievement, while also ensuring that the very talented have access to graduate education.

The program that follows from this discussion consists of merit-based grants, of modest number and dollar amount, modeled on the existing NSF predoctoral fellowship program, but extended through the appropriate federal agencies to cover all academic disciplines. Although there is no scientific way to determine the proper number of awards required to achieve the purposes just discussed, the following are offered as guidelines:

Approximately 2,000 new awards should be made each for graduate study in any academic discipline leading to the Ph. D. or similar degree.

The term of the fellowship should be three years with an annual award to the student of approximately $3,500. A cost-of-education allowance to be applied toward the cost of the student's education and accepted by the university in lieu of tuition should accompany each award.

The fellowships should be "portable," attached to the young scholar, allowing him or her to study in the graduate school of his or her choice.

The NSF Predoctoral Fellowship Program currently awards 500 new fellowships each year in the physical, biological, and social sciences. Under our recommendation, the NSF program would be expanded, and the concept would be extended to all academic disciplines by establishing a counterpart program at the National Endowment for the Humanities. The distribution of fellowships between the two agencies should be governed by the size and number of eligible disciplines under their purview. With approximately 800,000 bachelor's degrees awarded each year, 2,000 merit fellowships would represent roughly ¼ of 1 percent of this pool of potential graduate students. A program of this size, focused exclusively on quality, should be a permanent feature of federal support for graduate education, not fluctuating with changing labor market conditions.

The portability of prize fellowships is a matter of some dispute. It is entirely possible, in some fields, for nearly all the fellowship recipients to be concentrated in a few graduate departments. This would conflict with the often expressed goal of sustaining many geographically dispersed centers of excellence. Excessive concentration of brain power is not in the best interests of graduate education or of the nation. But the merit fellowship program is not an appropriate vehicle for reducing such concentration. Very able scholars should be allowed to pursue their intellectual interests wherever they see the greatest gain, which is consistent with the "free-choice principle" that we support in the selection of fields of study.[5] The valid concern for regional centers of excellence should be met by supporting graduate programs of high quality capable of attracting the best students, rather than by constraining student choice.

FELLOWSHIPS IN A SECOND BEST WORLD

This section amplifies the limited number of special purpose fellowship programs recommended thus far. The programs we have endorsed provide a base for graduate support—an irreducible minimum. But these programs, even in combination, will aid only a small fraction of the expected number of graduate students, a much smaller proportion than were aided under federal fellowships and traineeships in the late 1960's.

For most of graduate education, federal student-aid policy cannot be discussed in isolation from research and institutional support programs at both the federal and state levels. Non-fellowship holders will have to finance their studies through research assistantships, teaching assistantships, and by loans and other forms of self-support. Our position on fellowships depends on how adequately public bodies maintain these other forms of support.

A fellowship program no larger than the one recommended in this chapter can only be endorsed provided that (1) research support grows sufficiently to maintain or expand the number of research assistantships, (2) state governments maintain or expand support of teaching assistantships, and (3) tuitions for graduate students rise no more than is compatible with reasonable debt levels for graduate students.

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[4] *Cum laude* degrees, commencement prizes, election to Phi Beta Kappa certainly provide some such honors, but they are, in practice, "local". Scholarships of a more "national" scope, such as Rhodes, Churchill, Luce and Watson are very limited in number.

[5] National Board on Graduate Education, *Doctorate Manpower Forecasts and Policy*, *op. cit.*

Reasonable here means reasonable in the eyes of the students—not so high as to discourage the enrollment of those able to both benefit from graduate education and contribute more productively to society with their graduate training. While lifetime earnings attributable to graduate education obviously play a major role in determining how much debt students will find acceptable, it does not follow that students will be willing to incur debts up to the point where their income gain is just sufficient to pay off their indebtedness. Student behavior is governed in part by attitudes toward risk and uncertainty that cannot be easily assessed *a priori* for purposes of policy determination. Thus, there is no valid way at present to calculate the amount that students should be willing to borrow, even though such calculations have been made.

If research support fails to keep pace with inflation or if the assistantship component of research funding declines, if states fail to maintain teaching assistantship levels, if student loan programs fail to be adapted to meet rising charges (see the next section), or if borrowing by graduate students is pushed to the point where significant numbers of able students are discouraged from continuing their education—then the proposed base fellowship program would be inadequate whatever its theoretical desirability under favorable circumstances. If several of these adverse conditions should materialize, the continued existence of quality graduate education would be in doubt, and, in that event, a significant increase in the number of federal fellowship would be necessary.

These considerations raise two issues of federal fellowship policy. First, there is a need for a standby capacity for federal fellowship support. In the long-run, this capacity should be flexible enough to accommodate whatever emergencies may arise. The fellowship program authorized under Title IX, Part B of the Education Amendments of 1972[7] should be kept on the books, to be employed in the event of significant cutbacks in other forms of aid or failures of loan programs to meet graduate student needs. Second, though the kind of breakdown that would warrant a massive increase in fellowships has not yet occurred, a series of policy moves, *already begun*, could bring about such a breakdown. Our report has previously discussed the decline in federal fellowships and in research support, and the next section examines several reasons why federal loan programs may not be able to pick up the slack in graduate assistance. To these we would add the projected reduction in number of veterans eligible for G.I. Bill benefits, the slowdown or decline in undergraduate university enrollments which may erode teaching assistantship support, and recent advocacy by several groups of accelerated advances in tuitions at public institutions (especially at the graduate level). If several of these events coincide in the next few years, a crisis is likely. With so many contingencies and so much at stake, careful and continuous monitoring of programs that support graduate education is essential.[8]

LOANS AS A COMPONENT OF GRADUATE STUDENT SUPPORT

We believe that loans are a sound component of a total package of support for graduate students. As a matter of policy, loans on reasonable terms should be encouraged, but within certain important guidelines which set limits on loans as a component of graduate student support.

In fact, federally guaranteed student loans are increasing rapidly as a means of graduate student support. In 1969, 63,000 graduate students borrowed an average of $1,012 for a total of $64 million. By 1972, the number of graduate student borrowers had increased to 113,000 and the average loan increased moderately to $1,143 for a total of $129 million, double the 1969 level.[9] This increase helped to offset the sharp decline in federal fellowships and traineeship support.

The central policy question is whether there should be a substantial further shift towards loans as a primary source of graduate student support. If fellowship support is provided along the lines advocated in this report, loans would necessarily become more significant, but would remain part of a pluralistic and diverse system of student support.

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[7] U.S., Congress, Senate, *Education Amendments of 1972*, P.L. 92-318, 92nd Cong., 2d sess., 1972, Title IX, part B.

[8] This subject is discussed in greater detail in Chapter 7, pp. 81–83.

[9] Data provided by U.S. Office of Education, Division of Insured Loans.

The principles which should undergird loans as an element of graduate student support are these:

1. Loans should not be relied upon as a substitute for the fellowship programs outlined in this report, for we believe each of these programs has a sound rationale.

2. Loans should be a supplemental source of income for those eligible for fellowships.

3. For those graduate students who do not receive fellowships under an adequate fellowship program, as defined in this report, loans would be one major source of support, together with teaching and research assistantship, and family resources.

4. The university should know the mix of earnings, loans, gifts, and stipends available to each graduate student so that serious inequities among students can be avoided.

5. There should be a ceiling on the total indebtedness which students may incur. The ceiling should be high enough so that students can borrow substantial sums for graduate as well as undergraduate study, but low enough so that students will not be permitted to load themselves with an excessive long-term debt.

6. There should be continuing experimentation by individual universities with new forms of repayment, including extended time periods for repayment and methods for relating repayment to ability-to-pay as determined by earnings after graduation.

DEFICIENCIES OF THE FEDERAL GUARANTEED LOAN PROGRAM

Given these principles, existing loan programs are deficient in a number of important respects. First, in many parts of the country, federally guaranteed loans are difficult to obtain unless a student's family has established banking contacts. Graduate students are more likely than other students to live away from their parents and to be independent of them. Their own banking connections are usually not substantial.

Second, because the maximum interest rate charged to the student is fixed by law, the guaranteed student loan program is severely squeezed in tight money periods. Some flexibility was added in 1969 when new legislation allowed the government to pay supplementary interest (up to 3 percent per annum) to lenders. But judging by the events of the summer of 1973, this flexibility has not been enough to offset the unattractiveness of student loans in periods when alternative investment yields are rising.[10] The impact of the new secondary market for student loans (through the Student Loan Marketing Association) is, as yet, untested.

Third, the federal program permits a maximum annual loan of $2,500 and a debt total for combined undergraduate and graduate borrowing of $10,000.[11] These ceilings limit the number of graduate students who can finance a substantial portion of their education with GSL program loans. However, because the annual limits were lower ($1,500) in past years, most graduate students today probably have accumulated much less debt than the new limit allows; after a few years at the higher annual debt limit, the $10,000 total debt limit will begin to pinch.

Finally, under the 1972 Education Amendments, in order to qualify for subsidies under the federal loan program a student must prove "financial need" in the amount of the loan. The "need analysis" on which such demonstration is usually based is designed for younger, dependent students. Graduate students face major problems under this needs test. Some graduate students are likely to fail the test of independence and thus have their "need" reduced by an "expected family contribution," when such contribution is not, in fact, received. (Unsubsidized loans are, in principle, available for amounts in excess of calculated need, but such loans are rarely extended.) Moreover, to the extent that graduate students qualify as independent students, they face very stiff required contributions from their own and their spouses' assets and earnings. In fact, student-need analysis for independent students is very much a primitive art.

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[10] During August and September, peak months for student loans, the number of student borrowers was down 33 percent in 1973 from the 1971 level, and loan volume was down 23 percent over the same period, reflecting both the "tight money" squeeze and the problems introduced by the "needs analysis" discussed below.

[11] Some states impose even lower debt limits.

No one knows what are reasonable expectations of contributions for such students. Arbitrary toughness has been substituted for the many years of experience needed to learn the needs of students.

PROBLEMS WITH PROPOSED REVISIONS OF LOAN STATUTES

These problems of access and adequacy in the operation of existing loan programs are generally conceded, but many argue that fairly simple modifications in existing legislation would solve them. However, the needed modifications raise such complex issues that further substantial expansion of federally guaranteed loans for graduate students is an unrealistic expectation. Moreover, the lack of solid underlying research means that the changes will have to be made piecemeal. Accordingly, it will be some time before loans can offset further significant reductions in other sources of graduate student support.

One proposed modification is elimination of the interest subsidies in the loan program and removal of the ceiling interest rate, because the interest subsidy is an ineffective way to subsidize education, while the interest-rate ceiling diverts funds from student loans in periods of tight money. However, withdrawal of government-paid interest for enrolled students would make bank lenders less interested in student loans since the interest subsidy allows each bank to make one combined billing for interest to the federal government, rather than numerous individual billings to students. This effect might be offset by a removal of the interest-rate ceiling, but the fact is that no one knows how the flow of capital through the banking sector would be affected by such program changes. What is known is that the cost of loans to students would rise.

Several recent proposals suggest removing the dependence of GSL on commercial banks. For example, student lending could become mainly a function of colleges themselves, with capital provided in large part by the Student Loan Marketing Association (Sally Mae).[12] Alternatively, the nation could move to a direct, government loan bank.[13] Many tough problems that have not been seriously studied would arise in carrying out such proposals: How would the interest charge be determined? Would all classes of students or institutional lenders be treated the same? The implementation of unsubsidized loans made primarily by non-banks is still some years off, and will only occur after a great deal more study.

While the 1973 *annual* loan limit of $2,500 is a reasonable maximum for graduate students,[14] the lifetime debt limit of $10,000 is clearly inadequate for graduate students. A special higher limit of up to $15,000 should be allowed for those who undertake graduate education, and this limit should be reviewed periodically. At the same time repayment periods of up to 20 years should be allowed in lieu of the present 10 years.

Lifting the debt limit and permitting lengthier repayments would lead, however, to a number of unresolved policy issues. One is that existing reliance on commercial bank lending could not continue because banks complain that even the existing 10-year term is too long. Second, if only those who incur debts above some limit can have a lengthened repayment term, rules will have to be established to determine which lender must consolidate and rewrite the loans. Whatever the arrangements might be, the extension of loan repayment terms would require a substantial revision of the institutional arrangements that now exist in the federal guaranteed loan program, and this will take time.

Finally, loans can be made a more acceptable means of financing graduate education by reducing the apprehension of borrowers that repayment may impose too much of a burden on them in years of low earnings. This can be accomplished in a number of ways. One way is to allow the annual loan payment to vary in amount depending upon the income earned each year. We endorse experimentation with such plans, as advocated in the report, *Higher Education: Who Pays? Who Benefits? Who Should Pay?* of the Carnegie Commission on Higher Education.[15] The loan programs in operation at Harvard, Yale and Duke share this feature, and it is hoped that additional universities will undertake such programs until a national plan is implemented. Realism dictates, however, that such private plans not be viewed as a major source of loan funds.

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[12] Some of these possibilities are discussed in D. Bruce Johnstone, *New Patterns for College Lending* (New York: Columbia Press, 1972). Chapter 6.

[13] See the Carnegie Commission's *Higher Education: Who Pays? Who Benefits? Who Should Pay?* (New York: McGraw-Hill, 1973), Chapter 14.

[14] Some people would argue that students should be able to borrow foregone earnings as well as direct costs, which would raise the annual limits to the $9,000 zone. Clearly, this question is interrelated with the matter of whether the loans are subsidized and with what happens to tuitions.

A more radical departure from existing loan programs would reduce the risks of investment in education even further by allowing partial cancellation of repayment obligations for low earnings borrowers. The Yale plan involves this feature, mutualizing the risk across the cohort of Yale borrowers. The Carnegie Commission has recommended a similar provision in the event of catastrophically low earnings, with the amount forgiven covered by public subsidy.

If the federal government is eventually to endorse some kind of risk reduction program for borrowers, it will have to settle the questions of institutional versus federal programs, the degree of risk insurance to provide, and the proper focus of subsidization for unsuccessful borrowers. These issues are difficult to resolve. They have received little serious study or debate, and since it is unrealistic to expect any early resolution of these questions, even income-contingent loan plans with some element of federal support cannot be seriously considered as a source of substantial additional loan funds for graduate students in the foreseeable future.

In summary, federal loan programs have been able to fill gaps in student need during the past few years. But without modification, these programs cannot continue to meet growing student needs. This means either that the loan programs must be changed or that other forms of aid must bridge the gap. Most of the modifications to existing loan programs that would be necessary to make them effective forms of aid to graduate students have been inadequately studied. Many key policy issues need analysis and resolution before changes can be made. Moreover, the basic question of how much indebtedness graduate students should be expected to incur must be resolved. We recommend the following:

Establishment of a commission to review the applicability of federal loans to support graduate students and propose answers to questions raised in this report. The commission should specifically consider the loan proposals of the Carnegie Commission.

Amendment of the Education Amendments of 1972 in the light of these recommendations, with immediate increase in the debt limit up to $15,000 and the repayment period up to 20 years for graduate students.

Continuing experimentation by individual universities with programs designed to lessen the burden of borrowing and to reduce the risks incurred by graduate student borrowers.

Continuing experimentation by individual universities with methods for taking financial need into account when designing financial aid programs for graduate students.

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CHAPTER 6—INSTITUTIONAL SUPPORT

A third major category of federal aid to graduate education and research is institutional support. The distinction between support of students and research on the one hand, and institutional support on the other, is not sharp. For example, when fellowships and traineeships are awarded to particular institutions, these represent a form of aid to those universities. These federal grants aid the university in recruiting capable students, and relieve pressure on its own student-aid funds. In addition, tuition paid by the student recipients flow to the institutional treasury. Similarly, research grants or contracts assist in institutional development by financing new equipment and additional faculty and staff, by enriching the educational environment for both students and faculty, by providing aid to students through research assistantships, and by relieving pressure on institutional research funds. Categorical grants designed for specific purposes such as student aid and research may sometimes lead to unbalanced growth of universities; there is no doubt, however, that they do encourage institutional development and, in that sense, represent institutional support. Moreover, imbalances can sometimes be partially corrected through the internal budgeting process of universities, especially in a time of broad general growth. Grant funds infused into the one department may enable the university to shift some of its own funds to other departments.

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[15] Carnegie Commission, *Higher Education: Who Pays? Who Benefits? Who Should Pay?*, *op. cit.*, pp. 118–121.

At the opposite extreme from categorical grants are the general unrestricted institutional grants available to all institutions. When the funds are provided in this manner—without selection of institutions and without designation as to how they should be spent—their effect on graduate education will depend upon the internal decision-making process within universities. Such aid is likely to be diffused widely throughout the institutions and, therefore, to affect graduate education and research only indirectly.

Between the two extremes are federal institutional grants which might be called semicategorical grants. These are neither designed for narrowly specific categorical purposes nor are they distributed unselectively to all institutions of higher education. Included in this group are grants to institutions supplementing awards of fellowships and traineeships; grants supplementing research awards; grants or subsidized loans for building construction; and grants specifically designed for broad development of graduate study, scholarship and research in institutions.

This section will be concerned primarily with semicategorical forms of institutional support as they relate to graduate education.

FEDERAL POLICY

For a variety of reasons, not all of them consistent, the federal government has been conservative or reluctant in its use of institutional support. Federal policymakers have tended to favor forms of aid that will produce specific results closely related to federal administrative responsibilities in defense, space, agriculture, etc., and that are clearly vested with the national interest in a way easily explained to the public. They have tried to retain considerable control over the use of the funds and to impose fairly strict accountability. The federal government has generally avoided the kinds of institutional aid that would involve such wide dispersion of funds that direct results could not be identified, and has leaned toward support of excellence. Policymakers have intended that the federal contribution should augment the contributions of the states and the private sector and not substitute for them. In addition, recent policy has placed higher priority on opening up opportunity for students through student aid than on the support of institutions. Many federal officials have expressed the belief that unrestricted institutional aid would not be the most effective way to increase opportunity for students or improve quality of instruction and research. For all these reasons, having varying degrees of plausibility, the federal government has tended to concentrate its efforts on student aid and research, proceeding in a more limited way in the field of institutional aid.

This posture has been tenable on the assumption that someone else—the states, local municipalities, private donors, and tuition-paying students—would provide adequately for the basic operation of the institutions. It has been based on a rough division of responsibility in which the federal government would provide substantial support for students and research, and certain other fairly limited forms of aid to institutions, while primary responsibility for the institutions would come from other sources. More recently, another concept underlying this policy has been that revenue sharing might eventually be a vehicle of federal assistance to states and localities in bearing their higher educational burden.

Out of these many considerations has emerged present federal policy. Chapter 2 outlined the development of federal support, the resulting distribution of federal funds for graduate student support, research support, and institutional support connected with graduate programs for FY 1972 is displayed in Table 9. These data show that the majority of federal support has been categorical aid for students and for research, with only 7.2 percent available in the semicategorical form of institutional support described above.[1]

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[1] Cost-of-education allowances accompanying fellowships and traineeships and tuition payments accompanying training grants are included in the student support figures. Research assistantships are included in the research support figure. Federal funds for semicategorical institutional support were considerably larger in fiscal 1968. See Appendix Table A.13.

TABLE 9.—FEDERAL FUNDS TO UNIVERSITIES AND COLLEGES FOR GRADUATE EDUCATION AND RESEARCH BY PROGRAM AND TYPE OF SUPPORT, FISCAL YEAR 1972

[In millions of dollars]

Category of funds	Federal funds to graduate education and research, fiscal year 1972			
	Student	Research	Institutions	Total
Fellowships and traineeships	113.9			113.9
Training grants	67.6		69.3	136.9
Work-study (CWSP)	10.9			10.9
GI benefits	210.0			210.0
Research and development		1,788.0		1,788.0
General science support			67.0	67.0
Loans:				35.0
Direct student loans (NDSL)	17.2			
Guaranteed student loans (GSL)	17.8			
Capital (R. & D. plant)			36.9	36.9
Total	437.4	1,788.0	173.2	2,398.6

Source: App. table A.13.

Federal policy in support of graduate education, scholarship, and research raises a fundamental question about the locus of decision-making. To what extent should it be lodged in federal agencies and to what extent in the universities? Categorical aid tends to place the decisions in the agencies, whereas aid in less restricted form tends to place the decisions in the universities.

In the area of research, the university is the principal place in our society where ideas can be considered for their own sake and where there are a few restrictions imposed by the need for practical results. As discussed in the previous chapter, this kind of unprogrammed, pure research turns out to be immensely practical in the long run, serving as the fountainhead of most of our scientific and technological progress. Emphasis on outside decisions, often motivated by short-run considerations, tend to weaken decision-making within the university, and may, if carried too far, impair the national research effort.

In the area of graduate student support, the same considerations apply. Decisions about which fields and specialties to support may be made by the agencies through forms of student aid designed to meet specific projected manpower needs; or they may be made through the relatively free choices of students, who are influenced by values internal to the university, by advice of professors, and by labor market considerations. Excessive emphasis on outside decisions—especially in view of the parlous state of manpower forecasting—can warp student choices just as much as excessive reliance on uninformed free choice may lead to imbalance.

The goal, of course, is balance—between outside and inside decisionmaking, for both research and graduate education. To achieve this balance is perhaps the most critical problem of American higher education today. Many observers believe that faculties and administrations have traditionally had excessive decision-making power and that universities have not been sufficiently responsive to social needs. A two-pronged effort has been launched in recent years to strengthen outside influences and thus increase the social responsiveness of universities. One approach has been through political means such as increased intervention by governors and legislatures, creation of statewide coordinating agencies, and imposition of specific conditions for federal aid. The other has been to introduce stronger elements of the price system into the financing of universities.

Under an extreme version of the price system, universities would price their instruction to students at or near full unit cost; students would be financed independently of the universities; universities would sell their research on contract to government and business, and their public services in the market. Under this system, universities would depend for their existence upon meeting outside demands and, thus, become totally dependent on the dictates of the marketplace. At the opposite extreme, universities could be financed entirely by unrestricted appropriations, gifts, and endowment income, controlling all their own student aid funds. In this system, decision-making would lie largely with the faculty and administration, though it would be broadly responsive to outside sources of funds so that appropriations and gifts would keep flowing. We believe that the desirable distribution of power lies between the extremes of the price system and total support in the form of unrestricted funds. The history of higher education, however, strongly supports the view that some degree of academic self-determination, reinforced by substantial unrestricted funds, is conducive in the long run to the advancement of learning and to the sound education of students. It would be hard to find a university where academic greatness has been associated with continuing and heavy-handed outside control. The importance of academic self-determination is sometimes overlooked in the present contest for control of the university.

All of these considerations suggest that federal policy for graduate education and research should be directed toward balanced institutional development, academic self-determination, and stability as well as toward training specific types of learned persons and advancing particular branches of knowledge. *We believe that the division of responsibility for higher education which has been evolving over the past 25 years is fundamentally sound, namely, that the states and the private sector assume responsibility for basic operation of the institutions and that the federal government assumes increasing responsibility for the financing of students, research, and selected institutional programs in the national interest.*[2]

Since the institutions are the prime source of both graduate education and basic research, the quality of the future product depends upon their essential soundness as centers of learning. Thus, a perennial question remains. To what extent should the federal government give support to broad institutional development as a supplement or an offset to its categorical programs?

POLICY OPTIONS

There are many ways of providing general institutional support for graduate education and research. The following are examples:

1. Totally unrestricted support for all institutions of higher education, regardless of their role in graduate education and research (only a small part of such aid would flow into graduate education and research);

2. Totally unrestricted grants awarded only to institutions engaged significantly in graduate education and research;

3. Grants awarded to all qualified institutions subject only to the restriction that the funds be used for graduate education and research;

4. Relatively broad grants but awarded (1) with conditions relating, for example, to program, institutional quality, geographic area, size of institution, enrollment of minority students, or scope of research effort; and (2) with restrictions on the use of the funds, for example, to support research, to support graduate study, to provide fellowships, to purchase equipment or to strengthen faculty.

This fourth category illustrates that the demarcation between institutional aid and categorical grants is not a sharp line. Determing when a grant is to be classified as institutional aid and how many conditions and restrictions will justify its classification as a categorical grant is arbitrary.

1. Federal revenue with the states in the belief that some of the shared funds would find their way to graduate education and research as needed; and,

2. Incentive grants to the states to encourage state effort in the finance of higher education generally or of graduate education and research in particular.

The direct effect on graduate education of either of these approaches is likely to be attenuated because of general institutional needs or because programs with greater immediate appeal receive higher priority.

On the other hand, since the federal government has special responsibilities in the areas of graduate education and research, grants to institutions with certain conditions and restrictions are more likely to hit the target than are broad general grants. In fact, the federal government has for several years financed certain programs, described in Chapter 2, that provide institutional aid of this type. These programs include:

1. cost-of-education supplements of approximately $2,500/year accompanying most federal fellowships and traineeships. The total volume of those is declining as the fellowship and traineeship programs are phased out.

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[2] The Carnegie Commission on Higher Education has endorsed this division of labor between the federal government and the states. *See Institutional Aid: Federal Support to Colleges and Universities* (McGraw-Hill, 1972), p. 2, and *Higher Education: Who Pays? Who Benefits? Who Should Pay?* (McGraw-Hill, 1973), pp. 8, 106.

2. supplementary grants to institutions from NSF and NIH to help the universities deal with the rigidities introduced by heavy reliance on the project system of research support. These grants were being phased out by the administration, but Congress recently restored the NIH General Research Support Grants to a level of approximately $50 million for FY 1974. (See footnote 3, Chapter 1, for qualification.)

3. The NSF Science Development Program, which provided special grants to selected universities to raise the quality of graduate education in science from good to excellent. This program ended in 1972.

4. The NIH/NIMH training grants, which include a substantial institutional support component.

5. Funds for R&D plant and construction grants for graduate academic facilities. Fund under the latter program have not been appropriated since 1968.

In addition to these five forms of support, which have existed for a number of years but are generally being phased out or sharply reduced, two additional forms of institutional support were written into the Education Amendments of 1972. Both could affect graduate education, but neither has been funded. The first new form[3] would provide funds, upon application on a competitive basis, to institutions of higher education, "to strengthen, improve and where necessary expand the quality of graduate and professional programs leading to an advanced degree (other than a medical degree) in such institutions," and for other related purposes [Title IX, Part A, Sec. 901(a).] The act authorized $30 million for this section for the year ending June 30, 1973, $40 million for the year ending June 30, 1974, and $50 million for the year ending June 30, 1975.

The second new form of institutional support, providing more general support for graduate programs, is aimed at helping institutions achieve "general educational goals and specific objectives of the graduate programs of the institution" (Title X, Part F—General Assistance to Graduate Schools, Sec. 981). This provision would base the grant upon the full-time equivalent number of students "pursuing a program of post-baccalaureate study." The actual amount awarded to each institution would depend on the operation of an extremely complicated formula providing general institutional support payments (called "cost-of-education payments," not to be confused with the cost-of-education allowances accompanying federal graduate fellowships) to all institutions of higher education. This provision (Title X, Sec. 1001) has not been funded.

A PROGRAM

Given this array of statutory authorities and administrative inventions, as well as others that could be proposed, we believe the following outline gives a reasonable program of support for graduate education in terms of function and magnitude for the period immediately ahead.

PROGRAM OUTLINE

- *Cost of Education Allowances* It should continue to be recognized that each student with a federal fellowship generates instructional cost substantially higher than the university's tuition; consequently, cost-of-education allowances now embodied in law and in administrative practice should be continued. The existing level of $2,500,[4] arrived at by administrative agreement among the federal agencies, was set more than a decade ago. It should be increased to $4,500 year, to reflect in part the rapid cost increases that have occurred during this period.[5] Since existing levels of federal fellowship support are low and declining and since this report recommends a modest level of federal fellowship support over the next few years, these cost-of-education allowances would provide a modest proportion of the cost of graduate instruction. These allowances should be reviewed and increased if costs continue to rise, in the same way that social security payments are reviewed and increased periodically.
- *Funds Complementing Project Support* The rigidities and lack of flexibility associated with the project-support system in the past indicate a need to continue to provide moderate institutional support funds to make that basically sound system operate most effectively. The administration's proposed phaseout of the NSF

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[3] Not literally new. The provision first appeared in the Higher Education Act of 1965. It was never funded, and was re-enacted with minor amendments in 1972.

[4] Increased to $3,000 in 1972 for the NSF predoctoral fellowship program.

[5] Just to keep pace with the inflation that has occurred in the decade since the allowance was set at $2,500 the amount would have to be raised to $3,750. At current rates of inflation, the difference between $3,750 and $4,500 would be reached in less than three years.

Institutional Grants for Science and the NIH General Research Support Grants ignores these needs. We strongly support the recent United States congressional appropriation of approximately $50 million for the NIH program, and recommend that this funding level grow modestly as research support increases. The current level of the NSF program ($6.9 million) should be increased to roughly $20 million in FY 1975 to restore the proportion of institutional-to-project support that prevailed in the late 1960's before the phaseout began.

Superior for New, High Priority Programs.—A separate need exists for institutional support funds in connection with socially urgent new graduate programs, as discussed in Chapter 4, "Specialized Manpower and Research Programs." In designing education and research programs, universities face the task of providing persons rigorously trained to solve such pressing problems as those of energy supply, the environment, health care delivery, mass transportation, urban centers, and stress and conflict in modern society. To speed the development of programs of quality and breadth, federal funds should be provided, on a competitive basis, to universities for the following: support of faculty and other professional staff, including graduate students and postdoctoral researchers; for laboratory equipment and supplies; for special library collections; and for other resources required for new programs. The institutional support component of these programs would be similar to that associated with NIH training grants, with funds originating in the appropriate mission-oriented federal agencies. Details on dollar amounts recommended under this section are in Chapter 4, pp. 51–52.

General Institutional Support.—Funding of the general institutional support provisions of the Education Amendments of 1972 (Title X, Sec. 1001) should be based on a separate assessment of the financial needs of postsecondary education totally, since the benefits of this provision relate more directly to postsecondary education than to graduate education explicitly. Because this report is focused on graduate education, and because the funds that would be allocated for graduate education under Title X could not exceed 10 percent of the total amount appropriated, we place higher priority on funding the preceding three programs at this time. Good graduate work, however, could not exist if undergraduate education in the nation's colleges and universities were impoverished. Therefore, serious consideration of the need for full funding of Title X, Sec. 1001, should have high priority in forthcoming United States congressional sessions.

INSTITUTIONAL AID AND TUITIONS

A frequent suggestion to alleviate the financial problems of higher education, including graduate education, is to raise tuitions rather than increase public support. For example, the Carnegie Commission on Higher Education has suggested that tuitions might be graduated by level of instruction, with tuitions minimal for freshman-sophomore instruction, higher for junior-senior instruction, and still higher for graduate and professional instruction.[6] While modest annual increases in graduate tuition will undoubtedly be necessary for many universities, we are opposed to the large increases that have been advocated by some groups since such increases would have to be offset in large part by increased student aid if opportunities for advanced study are to be kept open.[7] This is especially so because many graduate students are self-supporting, are without aid from their families and are living on a subsistence basis. Furthermore, raising tuitions will not eliminate the need for institutional funds from other sources. The Carnegie Commission, in the same report in which it recommended higher graduate tuitions, also stated:

"We believe that over the coming decade the federal government must significantly increase its support of education in graduate and selected professional fields and of basic research if the nation is to remain in the vanguard of scientific and technological developments. Each of these is an area of clear national responsibility and cannot effectively be left to state and institutional action alone."[8]

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[6] Carnegie Commission on Higher Education, *Higher Education: Who Pays? Who Benefits? Who Should Pay? op. cit.*, pp. 107–8.

[7] On this point, see the discussion in Chapter 4.

[8] Carnegie Commission, Higher Education: *Who Pays? Who Benefits? Who Should Pay?, op. cit.*, p. 107.

A PHILOSOPHY OF INSTITUTIONAL SUPPORT

The philosophy underlying institutional support for graduate education is one of securing positive benefits from two principles that generate inherent tension and are inconsistent if carried to extremes. Both must be followed in balanced measure. The first principle is that the university must have a large degree of freedom if it is to do effectively for society what society demands of it. The integrity of the university as a center of learning depends on its having access to substantial amounts of relatively unconditional and unrestricted funds. Such funds enable the faculty and administrative staff to exercise professional judgment in matters of education and research, to budget in ways that will achieve coherence and balance among the various disciplines and activities of the university, and to build centers of learning rather than collections of disparate activities responding to signals from the outside market.

The second principle is that graduate education must be responsive to the needs of society, and this is incontrovertible. Given the power of graduate education and research to supply persons equipped to analyze pressing social problems and part of the new information and ideas without which these problems will not be solved, a failure to focus graduate education and research effectively on these tasks would be unwarranted and irresponsible.

The program outlined above is designed to reconcile these conflicting and equally valid principles. Cost-of-education allowances help the institution meet heavy costs, and those costs are met most effectively in institutions and fields selected by the students. This is useful, but not as the sole form of institutional support for graduate education.

The form of institutional support represented by supplements to research project grants is designed to sustain institutional flexibility wthin a research-support system which otherwise tends (1) to erode the freedom of the institution and (2) to make it unhealthily subject to federal agency program decisions which have little or nothing to do with the strength of institutions of higher education.

Funds awarded competitively, expressly for the development of research and training programs, are essential if graduate education is to provide trained people and competent analysis in the resolution of social problems. Such support is an outside influence on the course of graduate education, but, if supplemented by other forms of support which maintain a proper degree of institutional autonomy, it will be productive.

TABLE A.1.—FEDERAL EXPENDITURES FOR RESEARCH AND DEVELOPMENT AT UNIVERSITIES AND COLLEGES BY CHARACTER OF WORK, 1963-72

[In millions of dollars]

	Federal R. & D. expenditures							
	Total		Basic research		Applied research		Development	
year Fiscal	Current	Constant [1]	Current	Constant [1]	Current	Constant [1]	Current	Constant [1]
1963	760	709	610	569	128	119	22	21
1964	916	842	767	703	127	117	22	20
1965	1,073	966	879	793	157	142	37	33
1966	1,262	1,108	1,009	885	194	170	59	52
1967	1,409	1,198	1,124	956	222	189	63	54
1968	1,572	1,285	1,268	1,037	241	197	63	52
1969	1,600	1,248	1,275	994	245	191	80	62
1970	1,658	1,226	1,288	952	266	197	104	77
1971 (preliminary)	1,724	1,218	1,349	953	276	195	99	70
1972 (estimate)	1,788	1,224	1,409	964	286	196	93	64

[1] 1958 constant dollars; GNP price deflator was used to convert current to constant dollars.

Note; It should be pointed out that the distribution of Federal funds shown here and in subsequent tables is based on university reporting and university definitions of basic and applied research and development. Reports based on Federal agency reporting show a larger share of Federal funds going to applied research. See National Science Foundation, "Federal Funds for Research, Development and Other Scientific Activities" (Washington, D.C.: U.S. Government Printing Office, 1972).

Source: National Science Foundation, "National Patterns of R. & D. Resources, 1953-73" (Washington, D.C.: U.S. Government Printing Office, 1973).

TABLE A.2—UNIVERSITY AND COLLEGE EXPENDITURES OF THEIR OWN FUNDS FOR RESEARCH AND DEVELOPMENT AT UNIVERSITIES AND COLLEGES BY CHARACTER OF WORK, 1963-72

[In millions of dollars]

Fiscal year	University and College R. & D. Expenditures							
	Total		Basic research		Applied research		Development	
	Current	Constant[1]	Current	Constant[1]	Current	Constant[1]	Current	Constant[1]
1963	485	453	343	320	128	119	14	13
1964	555	510	402	369	139	128	14	13
1965	615	555	445	401	155	140	15	14
1966	673	591	494	434	161	141	18	16
1967	753	640	551	469	182	155	20	17
1968	841	688	621	509	198	162	22	18
1969	900	702	678	529	200	156	22	17
1970	970	717	747	552	200	148	23	17
1971 (preliminary)	1, 099	776	851	601	228	161	20	14
1972 (estimate)	1, 226	839	954	653	255	175	17	12

[1] 1958 constant dollars; GNP price deflator used to convert current to constant dollars.

Source: National Science Foundation, "National Patterns of R. & D. Resources, 1953-73" (Washington, D.C.: U.S. Government Printing Office, 1973).

TABLE A.3.—SUMMARY OF BASIC RESEARCH EXPENDITURES AT UNIVERSITIES AND COLLEGES, 1963-72

[Amount in millions of dollars] [1]

Fiscal year	Total basic research expenditures,[2] amount	Federal expenditures		University expenditures (own funds)	
		Amount	Percent	Amount	Percent
1963	967	569	58.8	320	33.1
1964	1, 159	705	60.8	369	31.8
1965	1, 280	793	62.0	401	31.3
1966	1, 405	885	63.0	434	30.9
1967	1, 518	956	63.0	469	30.9
1968	1, 644	1, 037	63.1	509	31.0
1969	1, 628	994	61.1	529	32.5
1970	1, 616	952	58.9	552	34.2
1971 (preliminary)	1, 670	953	57.1	601	36.0
1972 (estimate)	1, 740	964	55.4	653	37.5
Percent change:					
1963-68	+70.0	+82.2		+59.1	
1968-72	+5.8	−7.0		+28.1	

[1] 1958 constant dollars; GNP price deflator was used to convert current to constant dollars.

[2] Federal and universities own contributions do not sum to total since industry and "othter nonprofit institutions" contributions to university basic research, which are small and comprise a fairly constant share, are not included here.

Source: National Science Foundation, "National Patterns of R. & D. Resources, 1953-73" (Washington, D.C.: U.S. Government Printing Office, 1973).

TABLE A.4.—FEDERAL OBLIGATIONS FOR RESEARCH AND DEVELOPMENT TO UNIVERSITY AND COLLEGE R. & D., BY SELECTED AGENCY, 1963-72[1]

[In millions of dollars][2]

Fiscal year	Federal R. & D. Obligations						
	Total	AEC	Department of Defense	HEW	NASA	NSF	National Endowment for the Humanities[3]
1963	774.0	63.7	203.4	310.6	55.8	97.6	
1964	896.3	64.8	237.1	366.7	71.8	106.4	
1965	987.7	67.5	241.7	398.6	90.7	125.6	
1966	1,098.8	73.0	244.0	445.2	94.3	168.9	
1967	1,106.6	76.3	224.6	473.7	92.7	144.7	0.8
1968	1,143.3	83.2	198.8	506.2	103.1	153.5	.6
1969	1,150.3	80.4	217.4	520.4	95.4	149.4	.7
1970	1,069.7	75.0	196.3	454.7	94.2	148.8	.9
1971	1,095.6	67.7	175.8	491.3	90.7	153.2	1.0
1972	1,268.3	59.4	166.9	601.8	76.9	229.1	2.5

[1] Because agency figures are available only as obligations, the total R. & D. figures presented here represent obligations rather than expenditures and therefore are not comparable with R. & D. statistics cited elsewhere in this report. The total R. & D. column in this table includes obligations to all Federal agencies.

[2] 1958 constant dollars; GNP price deflator was used to convert current to constant dollars.

[3] These figures not included in total.

Source: National Science Foundation (Case), "Federal Support to Universities, Colleges and Selected Nonprofit Institutions, Fiscal Year 1971" (Washington, D.C.: U.S. Government Printing Office, 1973), and NSF tabulations for fiscal year 1972; National Endowment for the Humanities, unpublished data.

TABLE A.5.—CURRENT EXPENDITURES FOR RESEARCH AND DEVELOPMENT IN UNIVERSITIES AND COLLEGES, BY CHARACTER OF WORK, 1963-73

[Dollar amounts in millions]

Fiscal year	R. & D. expenditures						
	Total amount	Basic research		Applied research		Development	
		Amount	Percent	Amount	Percent	Amount	Percent
1963[1]	$1,359	$1,036	76.2	$283	20.8	$40	2.9
1964	1,595	1,251	79.1	294	18.4	40	2.5
1965[1]	1,822	1,419	77.9	346	19.0	57	3.1
1966	2,085	1,601	76.8	400	19.2	84	4.0
1967[1]	2,329	1,795	77.1	444	19.1	90	3.9
1968	2,599	2,011	77.4	492	18.9	96	3.7
1969[1]	2,705	2,087	77.2	501	18.5	117	4.3
1970	2,856	2,185	76.5	527	18.4	144	5.0
1971 (preliminary)[1]	3,070	2,365	77.0	570	18.6	135	4.4
1972 (estimate)	3,280	2,542	77.5	612	18.7	126	3.8
1973 (estimate)	3,425	2,615	76.4	665	19.4	145	4.2

[1] Estimates derived from related information; no sector survey was conducted for this year.

Source: National Science Foundation. "National Patterns of R. & D. Resources, 1953–73," Washington, D.C.: U.S Government Printing Office, 1973.

TABLE A.6.—FEDERAL AND UNIVERSITY R. & D. EXPENDITURES AS A PERCENT OF GNP, 1955-72

[Amount in billions of dollars]

Fiscal year	Total Federal		Total university and college		Federal funds to universities and colleges		University and college self-support funds	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1955	3.509	0.88	0.409	0.10	0.169	0.04	0.185	0.05
1960	8.752	1.74	.825	.16	.405	.08	.328	.07
1963	11.219	1.90	1.359	.23	.760	.13	.485	.08
1964	12.553	1.98	1.595	.25	.916	.14	.555	.09
1965	13.033	1.90	1.822	.27	1.073	.16	.615	.09
1966	13.990	1.87	2.085	.28	1.262	.17	.673	.09
1967	14.420	1.82	2.329	.29	1.409	.18	.753	.09
1968	14.952	1.73	2.599	.30	1.572	.18	.841	.10
1969	14.917	1.60	2.705	.29	1.600	.17	.900	.10
1970	14.775	1.51	2.856	.29	1.658	.17	.970	.10
1971	14.996	1.42	3.070	.29	1.724	.16	1.099	.10
1972	15.923	1.38	3.280	.28	1.788	.15	1.226	.11

Source: National Science Foundation, "National Patterns of R. & D. Resources, 1953-73" (Washington, D.C.: U.S. Government Printing Office, 1973).

TABLE A.7—FEDERAL FELLOWSHIPS, TRAINEESHIPS, AND TRAINING GRANTS

	Fellowships and traineeships [1]		NIH training grants [2]	
	Number of students (thousands)	Amount (million)	Number of students (thousands)	Amount (million)
Fiscal year:				
1963	15.6	$80.7	(3)	(3)
1964	20.4	106.1	(3)	(3)
1965	26.4	140.4	(3)	(3)
1966	40.0	213.0	15.6	$120.6
1967	51.3	257.6	15.5	131.3
1968	51.4	262.1	16.3	132.5
1969	42.5	222.9	15.8	139.3
1970	33.2	162.3	15.2	128.5
1971	29.0	137.3	15.0	192.7
1972	24.8	113.9	14.5	136.9

[1] Only predoctoral students. Amount includes cost-of-education allowance.

[2] Both predoctoral and postdoctoral, full-time and part-time students; excludes Bureau of Health Manpower Education, Division of Research Resources, NIMH and General Research support; includes National Library of Medicine; amount includes both institutional and trainee costs.

[3] Not available.

Source: Federal Interagency Committee on Education (FICE), "Report of Federal Predoctoral Student Support," pt. I 1970 (for fellowships and traineeships); NIH/OADPPE, issue paper on the training programs of the Institutes of the National Institutes of Health, pt. I, October 1970, p. 44; FICE data on predoctoral Fellowships and Traineeships, 1970-1972, unpublished; and NIH/SAB. IMPAC System, "TAR" Reports (for NIH Training Grants).

TABLE A.8.—GRADUATE STUDENT PARTICIPATION IN USOE LOAN AND COLLEGE WORK-STUDY PROGRAMS, 1963–72

	National direct student loans [1] [2]		Guaranteed student loans [1]			College Work-Study Programs [1] [3]	
	Number of students (thousands)	Federal capital component (millions)	Number of approvals (thousands)	Amount borrowed (millions)	Federal interest payments (millions)	Number of students (thousands)	Amount (millions)
Fiscal year:							
1963	13.0	$5.4					
1964	14.8	6.5					
1965	19.2	7.8				4.6	$2.2
1966	22.7	10.8	4.4	$7.0	0.	11.0	4.0
1967	23.7	10.6	29.7	22.4	$1.0	12.0	5.4
1968	25.7	10.7	46.4	39.2	2.8	14.1	5.4
1969	27.4	11.0	70.9	61.8	4.4	15.4	5.7
1970	27.1	11.3	82.9	75.6	9.3	17.0	5.9
1971	33.7	13.6	97.3	94.0	13.3	24.0	9.5
1972	36.9	17.2	113.1	117.1	17.8	NA	10.9

[1] Since a constant percentage was used to determine the graduate component indicated here, the figures do not reflect changes (if any) in percent of graduate participation in program.

[2] Figures for Federal capital component (FCC) do not accurately reflect the actual leve of university loan potential since universities can use repaid loan monies to finance additional loans.

[3] Amount only applies to 80 percent Federal share.

Source: U.S. Department of Health, Education, and Welfare, Office of Education, "Factbook" (Washington, D.C.: Bureau of Higher Education, 1973).

TABLE A-9.—GI BILL EXPENDITURES FOR GRADUATE STUDENTS [1]

Fiscal year	Number of students	Amount (millions)
1967	NA	NA
1968	NA	NA
1969	99,314	$81.2
1970	122,688	120.4
1971	146,092	177.7
1972	170,359	210.0

[1] Includes veterans and servicemen. Includes money students would spend for tuition and fees. Data do not include graduate school support for dependents and wives and children. Amounts are derived from VA total direct benefits costs. The amounts listed here for graduate students are projected from the proportion of graduate students receiving GI benefits. Since graduate students generally receive higher benefits due to a larger average number of dependents (and, hence, allowances), the graduate amounts probably underestimate the actual payments to graduate students.

Source: Veterans' Administration.

TABLE A-10.—FEDERAL COST-OF-EDUCATION ALLOWANCES AND TRAINING GRANT SUPPLEMENTS, 1963–72 [1]

[Dollar amounts in millions]

Fiscal year	Cost-of-education allowances		
	Fellowships and traineeships	Training grant tuition	Training grant supplements [2]
1963	$136.3	NA	NA
1964	47.7	NA	NA
1965	63.2	NA	NA
1966	95.9	$5.8	$68.9
1967	115.9	6.6	74.6
1968	117.9	7.7	70.2
1969	100.3	9.0	75.5
1970	73.0	9.9	62.8
1971	61.8	11.1	61.9
1972	51.2	11.7	69.3

[1] Included in amounts for fellowships and traineeships and training grants in table A-7.

[2] Estimate based on 45-percent institutional component.

Source: FICE, "Report on Federal Predoctoral Student Support," pt. I, 1970 (for fellowships and traineeships); NIH/OADPPE, issue paper on the training programs of the Institutes of the National Institutes of Health, pt. I, October 1970, p. 44; FICE data on predoctoral fellowships and traineeships, 1970–72, unpublished; and NIH/SAB, IMPAC System, "TAR" Reports (for training grants).

TABLE A-11.—FEDERAL OBLIGATIONS FOR GENERAL SCIENCE SUPPORT, 1963-73

Fiscal year	Federal general science support (millions)			
	NSF institutional grants	NSF university science development program[1]	NIH research general support[2]	Bureau of Health manpower education formula grants to public health schools
1963	$7.6		$23.9	NA
1964	11.4		26.0	NA
1965	11.4	$27.4	33.5	$2.5
1966	14.5	38.7	34.2	3.5
1967	15.2	37.6	39.6	3.8
1968	14.2	41.6	45.9	4.0
1969	([3])	31.7	45.4	4.6
1970	14.5	26.4	43.0	4.6
1971	14.5	19.9	40.2	5.0
1972	12.0	9.0	40.7	5.3
1973	8.0	0	20.1	([4])

[1] Includes departmental science development program.

[2] Includes general research support grants, health sciences advancement awards, and biomedical sciences support grants.

[3] No funds listed this year because of change in allocation period.

[4] Figure not available.

Source: National Science Foundation (CASE), and Bureau of Health Manpower Education, and Office of Management and Budget, 1973 Catalogue of Federal Domestic Assistance (Washington, D.C.: U.S. Government Printing Office, 1973).

TABLE A-12.—FEDERAL OBLIGATIONS FOR FACILITIES SUPPORT, 1963-72

Fiscal year	Federal support for facilities (millions)	
	R. & D. plant	USOE graduate facility construction grants
1963	105.9	
1964	100.8	
1965	126.2	60.0
1966	114.8	60.0
1967	111.3	60.0
1968	96.1	34.2
1969	54.5	25.6
1970	44.8	0
1971	29.9	0
1972	36.9	0

Source: R. & D. plant: National Science Foundation (CASE); OE Construction Grants: Department of Health, Education, and Welfare, Office of Education, Factbook, op. cit.

TABLE A.13—FEDERAL FUNDS TO UNIVERSITIES AND COLLEGES BY PROGRAM AND TYPE OF SUPPORT, FISCAL YEARS 1968 AND 1972

[In millions of dollars]

Category	Federal funds, fiscal year 1968				Federal funds, fiscal year 1972			
	Student support	Research support	Institutional support	Total	Student support	Research support	Institutional support	Total
Fellowships and traineeships	262.1		(1)	262.1	113.9		(1)	113.9
Training grants	[2] 62.3		[3] 70.2	132.5	[2] 67.6		[3] 69.3	136.
Work-study (CWSP)	5.4			5.4	10.9			10.9
GI benefits	[4] 60.3			60.3	210.0			210.0
Research and development		1,572.0		1,572.0		[5] 1,788.0	67.0	1,788.0
General science support			105.7	105.7				67.0
Loans			13.5				35.0	
Direct student loans (NDSI)	10.7				17.2			
Guaranteed student loans (GSL)	2.8				17.8			
Capital				130.3				36.9
R & D plant			96.1				36.9	
Office of Education Construction grants			34.2					
Total	403.6	1,572.0	306.2	2,281.8	437.4	1,788.0	173.2	2,398.

[1] Costs-of-education allowances included in the student support figure (for explanation, see footnote 10, p 21).
[2] Includes both predoctoral and postdoctoral support.
[3] Tuition payments included in the student support figure.
[4] Estimate: VA data not available for graduate student component in 1968.
[5] Research assistantships included in this figure

Source: Tables A.1–A.12.

	Fiscal year totals in 1958 constant dollars [1]			
	Student support	Research support	Institutional support	Total
Total 1968	330.0	1,285.4	250.4	1,865.7
Total 1972	299.4	1,223.8	118.5	1,641.8
Percent changes, 1968–72	−9.3	−4.8	−52.7	−12.0

[1] GNP price deflator used to convert current to constant dollars.

[Findings, a quarterly of ETS research in postsecondary education]

A PORTRAIT OF BLACKS IN GRADUATE STUDIES

(Leonard L. Baird[1])

In two recent surveys, ETS found that a slightly larger proportion of black than white college seniors planned to go on to graduate or professional schools and an equal proportion actually did so. Covering 21,000 seniors at 94 institutions across the nation, the initial survey showed that 41 percent of the blacks and 38 percent of the whites intended to continue their studies after earning baccalaureate degrees(1). This finding extended and confirmed the results of previous studies of the aspirations of black college freshmen conducted by the American Council on Education(2) and the National Scholarship Service and Fund for Negro Students(3).

Under the joint sponsorship of the Graduate Record Examination Board, the Law School Admissions Council, and the Association of American Medical Colleges, ETS conducted a follow-up survey of more than 10,000 graduates of these universities and colleges to determine whether they actually entered graduate and professional schools, and if so, to discern the nature of their experiences there(4). A 225-item questionnaire was mailed to 10,000 students, and responses were received from 278 blacks and 7,326 whites. This sample was augmented by a separate survey of 126 black and 2,026 white graduate and professional school students.

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[1] Leonard Baird is a research psychologist at ETS in Princeton.

BOTH RACES DESCRIBE EXPERIENCES SIMILARLY

Perhaps the greatest surprise was the striking similarity of the results for both races. One year after graduation from college, for example, one-third of the blacks and one-third of the whites were enrolled in some program of further education. Furthermore, there were few differences in the way blacks and whites described their graduate and professional school experiences. Of the 141 pertinent questions, black and white responses differed on only 22, or not quite 16 percent.

Some important differences did emerge, however, and they deserve attention from educators if an adequate pool of black professional talent is to be created. For instance, there are marked variations in the fields of study entered by blacks and whites. Detailed comparisons are shown in the accompanying chart, but some of the more vivid contrasts are worthy of special comment. The fields attracting the largest percentages of blacks are education, the social sciences, and social work. In all three fields, a greater share of black than white graduate students is enrolled, but the disparity is more pronounced in social work. While 12 percent of all black graduate students are pursuing this flield, only one percent of their white counterparts are.

FEW BLACKS IN ENGINEERING, BIOLOGICAL SCIENCES

Engineering and the biological sciences are the fields attracting the fewest blacks. Virtually none of them are in the biological sciences, while four percent of the whites are. Less than one percent of the blacks are studying to be engineers, compared with eight percent of the whites.

Although large numbers of blacks are entering post-baccalaureate programs, they are not represented proportionately to white in the fields that will produce future university and college faculties or practitioners in certain professions. In law schools, for example, blacks came close to whites, 10.5 percent to 12.5 percent, but in medicine the blacks lagged significantly, seven percent to 12 percent. Perhaps blacks who wish to return to their home communities and help their people feel they can be more effective as social workers, social scientists, and lawyers than as doctors, dentists, and engineers. However this may be, if blacks are to develop leadership capabilities in such fields as the health sicences, which incidentally are proving increasingly attractive to blacks at the paraprofessional and undergraduate levels, then more of them obviously must be recruited into the medical and biological sciences.

Differences in the ways blacks and whites described their experiences in graduate and professional schools were various in nature. One of the key differences was in the methods used to finance their educations, and it resulted directly from the lower average family incomes of blacks. For instance, 62 percent of the whites but only 33 percent of the blacks were able to pursue advanced courses without borrowing money. Of those who did borrow money, the blacks tended to borrow larger sums. Fully 35 percent of the blacks took loans up to $2,000, while only 21 percent of the whites did. And 16 percent of the blacks borrowed more than $2,000, while only 10 precent of the whites did.

BLACKS TEND TO RELY MORE ON SCHOLARSHIPS

Furthermore, despite their existing indebtedness, 70 percent of the blacks thought they would have to take additional loans to complete their graduate courses. For whites, the comparable figure was 30 percent. Black students also tended to rely much more heavily on scholarships and fellowships for support. University scholarships were reported by 60 percent of the blacks, but only 25 percent of the whites. Scholarships from outside sources were reported by 37 percent of the blacks, but only 13 percent of the whites.

In general, then, blacks had to borrow money or rely on scholarships in order to pursue advanced studies, whereas whites tended to rely on family support or their own savings. Probably because of these differences in patterns of financing, blacks were more likely than whites—61 to 43 percent—to feel that all students should receive scholarships so they could concentrate on their studies. Blacks also felt that scholarships should be based as much on need as on ability—75 percent compared to 64 percent of the whites—and that tuition should be lowered—73 to 56 percent.

Another difference emerged when blacks and whites were asked to rate the helpfulness of various sources of information and advice in choosing a graduate or professional school. Parental advice, for instance, was considered important by 44 percent of the blacks but only 28 percent of the whites. This may be the result of greater encouragement of their children's plans by black parents who are themselves generally less well-educated.

Blacks also credited several other sources of advice more frequently than whites—publications of national testing programs, graduate or professional school admissions officers, visits from campus recruiters. In the latter two cases particularly, the disparities between black and white responses were significant. Advice from admissions officers, for instance, was important for 36 percent of the blacks and 24 percent of the whites. The influence of recruiters was cited by 28 percent of the blacks and a mere six percent of the whites. These figures suggest that blacks often were sought out and recruited by graduate and professional schools.

This suggestion is underscored when the undergraduate grade-point averages of black and white graduate students are compared. Thirty-four percent of the blacks and 16 percent of the whites had C or C+ averages; 44 percent of the blacks and 32 percent of the whites had B averages; 21 percent of the blacks and 50 percent of the whites had averages of B+ or higher.

RESULTS INDICATE BLACKS ARE BEING RECRUITED

Taken together, the survey results relating to finances, sources of advice, and undergraduate academic performance make it plausible to assume that many blacks graduate students have been sought out for advanced study, admitted even if their grades were only average, and provided with loans and scholarships. Certainly this description does not apply to all black graduate students, but it does indicate a conscious effort by at least some graduate and professional schools to compensate for the historic underrepresentation of blacks in their student bodies.

Against this background, it is interesting to note that there were not many differences in the actual reactions of black and white students to their graduate and professional school experiences. Here are a few examples:

There were seven items on the questionnaire dealing with administrative style, and there were no discernible discrepancies between black and white responses.

Of 12 items dealing with other students, the two racial groups differed on only one. Blacks—69 percent of them—felt that "there are lots of student cliques," indicating they may feel that white students exclude them from activities. It should be noted, however, that 58 percent of the whites responded in the same vein.

Of 11 items dealing with the academic programs, one drew a significantly different response. Whites tended to dislike certain courses that they acknowledged were necessary for their chosen careers, whereas blacks tended to like those courses.

Graduate and Professional Fields of Study

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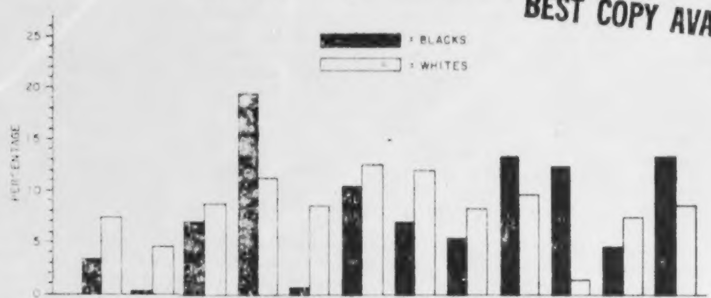

Of nine questions relating to general departmental atmosphere, the two groups again differed on only one. More whites than blacks felt that their schools or departments provided a liberal environment. This gap may be the result of differing views of what constitutes liberalism.

Blacks and whites expressed no differences on 11 items concerning the adequacy of libraries, laboratories, computers, and other facilities, or on 10 items relating to the quality of departmental and faculty advising.

In the area of policies, 53 percent of the blacks and 43 percent of the whites expressed some dissatisfaction with the formal requirements for earning their advanced degrees. Blacks were more convinced that the requirements were relevant "to the actual work in the field," with 69 percent of them and 59 percent of the whites responding positively.

Of 12 items dealing with personal reactions to, and opinions of, graduate or professional school, one key item drew a markedly contrasting response from the two groups. The statement, "My expectations of what graduate or professional school would be like are being fulfilled," drew agreement from 58 percent of the whites but only 47 percent of the blacks.

In some other areas, there were sharp contrasts between the prevailing views of blacks and whites. Their opinions about reforms in admissions provide a dramatic example. Fully 61 percent of the blacks agreed that "more blacks and minority group members should be admitted to this department, even if they do not meet the usual minimum requirements." Only 36 percent of the whites agreed.

White support dropped lower still for the statement, "More minority students should be admitted here, even if some qualified majority students would be excluded." Blacks again gave 61 percent support to this reform, but white support plummeted to 29 percent. Nevertheless, both blacks and whites supported the admission of more women and the idea that admissions should be based on other talents as well as academic ability. Both groups also opposed the proposition that admission requirements should be raised "so that fewer people will enter advanced study, and eventually . . . the job market in the field."

VARIATIONS IN STUDENT-FACULTY RELATIONS

In the area of faculty relations, blacks clearly felt more remote from their professors than whites did. Blacks described their professors as less friendly and accessible, less likely to treat student as adults, and less respected by students. Blacks also were less impressed than white with the liberalism of the professors' political views, less satisfied with the opportunities for independent study, and more inclined to feel that classroom discipline was too strict. Perhaps more significantly, they rated at least some aspects of teaching as less effective than their white classmates did. For example, 65 percent of the whites thought their professors explained the subject matter clearly, but only 48 percent of the blacks thought so. And while 53 percent of the whites credited their professors with the abiliy to stimulate student learning, a mere 39 percent of the blacks agreed.

To some degree, the blacks' feeding that the faculty is remote and formal may result from the fact that most professors are white. Over the years, some blacks undoubtedly have become skeptical of friendly overtures from whites, and some white professors may be uncomfortable with, and therefore more remote from, black students, particularly militant ones. And of course, whether consciously or not, some white professors actually may be unfriendly to black students.

The key question in this survey was whether the experience of blacks and whites as students in graduate and professional schools are the same or different. Apparently, the answer is that they are much the same, but there are some differences. Several of the differences, however, are slight and do not offer much insight into the real or perceived grievances of black students. So it is useful, by making some admittedly arbitrary assumptions, to isolate the significant differences between blacks and whites in graduate and professional schools.

SIGNIFICANT DIFFERENCES DESERVE ATTENTION

Assuming, first of all, that a difference of opinion must reflect a gap of at least 15 percentage points between the two groups in order to be significant, it is found that blacks and whites differed on only nine of the 141 questionnaire items. Assuming, secondly, that the items cover the breadth of graduate and professional school experience, this figure indicates the experience is approximately 94 percent the same and six percent different for the two races.

The significant differences are in attitudes toward faculty and formal degree requirements, in the basic financial situation of the students, and in the choices of fields for advanced study. It is to these areas, then, that attention should be devoted.

Blacks enter graduate and professional school with several strikes against them. They often come from families with limited resources, for whom support of graduate study would be a considerable financial burden. Many blacks, therefore, must borrow funds to attend graduate or professional school, and not infrequently they are already in debt for loans secured to finance their undergraduate training. Furthermore, many blacks who did not pursue advanced studies, when asked why, gave financial reasons more often than whites did. It appears that graduate and professional schools already are doing a good deal to meet the money needs of their minority students, and yet blacks are still running into a financial roadblock. Perhaps expanded private and governmental support are necessary.

EARLY INTEREST IN OTHER FIELDS NECESSARY

Attracting black graduate and professional students into different fields of study is a particularly difficult problem. More rigorous recruiting programs in certain fields might attract more black scholars, but it is likely that the interest in different careers must be initiated earlier in the formal education of blacks. For example, it is necessary to interest high school students in certain fields, such as engineering, before there will be large number of blacks drawn in those directions. In many cases, serious efforts will have to be made to overcome students' career stereotypes.

A report of the Carnegie Commission on Higher Education recently pointed out that there are proportionately few blacks among college faculty members (5). Statistics for the traditional professions also show proportionately few blacks in these areas. Before these imbalances are corrected, there clearly must be considerable change. As a first step, the pool of minority graduate and professional school students must be vastly increased, because it is the main source of college faculty members and other professionals.

Based on the results of this ETS survey, it seems that the differences in educational opportunities for blacks and whites are narrowing. More blacks are going to college and more are entering graduate and professional schools. But full equality is far from being realized, and there will have to be fundamental changes in this society and its schools before it is.

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INSTITUTIONAL GOALS AND CURRICULUM PLANNING

(Richard E. Peterson)[1]

Suppose you are dean of academic affairs at one of California's public colleges or universities, and you've been directed by your president to "come up with a new undergraduate instructional plan for the campus." The college, you are told, must become "more relevant to the 'new learners'," or "viable for the 'steady state' of the '70s," or some such shibboleth. Perhap's certain campus leaders (you included) have been smitten by a new (or old) concept of the good curriculum: Bell's "general education," Sanford's "personal development," Hook's "rational alternatives," Hutchins-and-MacDonald's "classical liberal education," Brown University's "modes of thought," Alice Lloyd's "community-based learning," or Prescott College's "indoor/outdoor" program.

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[1] Richard Peterson is a research psychologist at ETS in Berkeley.

Assume you are open-minded, receptive to ideas from all sources, and a political realist, aware that to keep the peace (and your job) you can't ignore judgments emanating from various power centers: departmental baronies, the faculty association, administrative cliques, insistent (and wealthy) alumni, the student newspapers, and so forth. You also have the rectitude to know that the undergraduate curriculum ought to reflect the institution's accepted goals. And finally, you have the good fortune to have comprehensive and recent data about those institutional goals.

As academic dean in a California college, your chances of having such data are better than 50-50. Of the 180 regionally accredited colleges in the Golden State, 116 distributed the Institutional Goals Inventory (IGI) in the late spring of 1972(1). They did so as part of a cooperative analysis of higher education goals for the State, sponsored by the legislature's Joint Committee on the Master Plan for Higher Education. The joint committee's objectives were to:

Compile information for use in conceptualizing the purposes of higher education in California.

Survey the beliefs of lay citizens residing near the campuses regarding the goals of the respective institutions.

Afford an opportunity for thousands of people associated with the institutions to register their beliefs about college and university goals.

Extend to each college and university an opportunity to study its own goals by using information from the IGI however it might be useful(1).

Depending on campus size, 50 to 150 faculty, undergraduates, graduate students, and community laymen filled out the IGI. Smaller groups of administrators on each campus were polled, as were members of the governing boards of the University of California, the California State Universities and Colleges system, community colleges, and private institutions. In all, 23,820 individuals participated.

The IGI consists of 90 goal statements. Using a five-point "importance" rating scale, each respondent rated each statement twice, first an *Is* rating, telling how important the goal is perceived to be at present, and second a *Should Be* rating, telling how important the goal ought to be. Of the 90 items, 80 are divided among 20 goal areas, which are listed in the accompanying table. The remaining 10 items are diverse, miscellaneous goal statements. The IGI also has a series of biographical questions—faculty rank, student major field, and so on—for analytic purposes, plus space for responding to any goal statements or background questions a particular institution may wish to add.

As chief academic affairs officers, your curriculum reform mandate will be hard to carry out at any public institution in California, but harder in some than in others. If, for example, you are the dean of instruction at a community college, you probably will not have too much trouble getting your plan accepted. That is, it might not take more than two years of tugging and hauling.

Of the four segments of California higher education, it is in the community colleges that there is the most agreement among constituent groups (students, faculty, trustees, and so on) about preferred institutional goals. This relative agreement ought to make for relative ease in conceiving and carrying out a new curriculum plan.

VOCATIONAL CONCERN HIGH AT EVERYBODY CC

Take Everybody Community College, a mythical institution based on data drawn from 69 community colleges. What would be the essentials of the instructional program there? Judging from the IGI data, the touchstone of Everybody's new curriculum would be *vocational preparation*, which ranks first among the 20 goals in six of the seven constituent groups, with the faculty ranking it a close second. Another essential would be the goal of *individual personal development*, which all constituencies rank in the top three. The third basic ingredient would be the goal of *community*, first with faculty and among the top three for all other groups. You will want to pay some attention to two other goals—*intellectual orientation* and *meeting local needs*—that pretty consistently dog the heels of the three leaders.

This consensus is impressive, and it seems to represent a curriculum planner's dream. The basic political problems seem to have been solved, or not to exist, at Everybody CC. All you have to do is fill in the details of your plan and then implement it. Right? Wrong. Everybody CC doesn't really exist, and the reality of internal politics from one community college campus to another is by no means so rosy.

The IGI yields perceptions of the *Is*, as well as beliefs about the *Sould Be*, regarding each goal, and while almost all constituencies wish for a greater sense of community (mutual trust, respect, and so forth), the various community colleges differ greatly in the level of community presently perceived on their campuses. There tend to be sizable gaps between what is wanted and what is seen to be. There are, in fact, campuses where faculty and administrators, or liberal arts and vocational faculty, barely talk to each other.

Furthermore, there is the very serious problem, particularly at urban community college campuses, of basic student literacy. In this respect, some inner city campuses are not much different than high schools. Literacy training is not covered in the IGI, except indirectly in two items, because it was not considered an important goal in the broad higher education perspective. Still, it is a function community colleges often need to perform if open admission is not to be a cruel deception.

Scores of youths leave community colleges after just a year—one semester in good standing and one on probation—with their hopes for a college education dashed. Some then enroll in proprietary schools if they can afford to), others join the military, many find jobs where they do not need to read or write or multiply, and others take to the streets.

SOME TROUBLE LURKS BENEATH THE SURFACE

So beneath its promising surface, the mythical Everybody Community College has its problems—and so do you. With that wide agreement among constituent groups about what the basic campus goals should be, curriculum reform ought to be easy. But it won't be, because of internal squabbles arising from different perceptions of the *Is*, and because there may not be general support for goals, such a remedial, developmental, and literacy education, which are not covered by the IGI. Goals such as these require not only broad and enthusiastic support but massive infusions of new resources.

If you think that's tough, consider your situation if you were academic vice president at the hypothetical Seasauk State College, an aggregate of 16 campuses of the California State Universities and Colleges system. At Seasauk, the level of constituent agreement about *Should Be* goals is substantially lower than at Everybody CC. Unless you're a miracle worker, you will not have an easy time securing general support for your new program.

The faculty, many of them recruited from prestigious graduate schools during the '60s, want SSC to be intellectually vital. They rank *intellectual* orientation of graduates at the top, followed by *community, intellectual environment, academic development*, and *individual personal development*. This general pattern holds for administrators and the president, although the latter attaches relatively higher importance to *individual personal development*.

Undergraduates, while they rank *community* highest, follow it closely with *individual personal development* (at a higher absolute level than the professors' rating), *intellectual orientation, and vocational preparation*. On this last goal, *vocational preparation*, the students find themselves with surprising bedfellows, the generally conservative trustees, but estranged from the board on the matter of *individual personal development*.

So at least three sources of conflict become clear. The bulk of Seasauk's faculty want a good, intellectually respectable curriculum oriented toward the liberal arts, with some attention to the personal development of students. However, the faculty is seriously demoralized; their gap between the *Is* and *Should Be* ratings of the *community* goal is the largest for any constituency at any type of institution.

VOICELESS STUDENTS VOTE WITH THEIR FEET

On the other hand, many of the students, in addition to *individual personal development*, want vocational relevancy, and they have support from trustees and the lay community. Undergraduates and graduate students rank *vocational preparation* fourth. Trustees and off-campus residents rank it third. The faculty, however, rank *vocational preparation* 10th, and the president and administrators place it 11th and ninth, respectively. While students have little voice in Seasauk's policy councils, they vote with their feet, and enrollments have "leveled off," not only at SSC but throughout the system, dropping precipitously at several campuses. Vocation-oriented students can switch to a community college, where the cost is lower, or to a proprietary school, where it is higher. Those seeking personal development can transfer to a private college, again at higher cost, or drop into the meditation-organic food-overalls subculture, with its benign climate of warm temperatures and food stamps.

The point of view of Seasauk's board of trustees is a third factor contributing to the generally low level of agreement about institutional goals. While the board appears to exercise little direct control over academic affairs, the broad political and educational values of its members do affect the environment in which SSC must forge and implement any new academic plan. And according to the IGI data, the trustees' beliefs could not be called ultraprogressive.

On *Should Be* ratings, for example, the board stands above all groups—far above the professors—on *accountability*. It stands below all groups on *intellectual environment*, *innovation*, *democratic governance*, and *freedom* as institutional goals. In fact, with only three exceptions—*community*, *accountability* and *vocational preparation*—the board falls below all constituencies on all goals, in some cases by extremely large margins. In other words, the board's collective opinion is that many goals should be of medium to low importance for Seasauk, a viewpoint in striking contrast to the attitudes of all other constituent groups.

Clearly, curriculum reform at SSC will require accommodations among the faculty's desires for intellectual and academic respectability, the students' interests in vocational preparation and human development, and the trustees' general academic conservatism. All in all, restructuring the curriculum should be a zestful undertaking in a fairly fluid system where good ideas often do struggle to surface, a system which shows many good signs of forward movement. Indeed, the large gaps between *Is* and *Should Be* ratings on *innovation* bespeak a real yearning for changes, particularly among faculty. As SSC's academic vice president, give yourself about four years to move from the original, "What we're doing is not working," to the eventual, "Now we've got something."

Your task as academic vice chancellor at Great University, on the other hand, is even more problematic. Interests and attitudes seem more hardened, steeled to preserve the institution's widely acknowledged greatness. Radical critics who say the system hasn't fielded a significant new educational idea since the Santa Cruz campus are dourly dismissed as having missed the point.

THERE'S DISAGREEMENT AT GREAT U, TOO

What are some of the people's real goals for GU (a statistical amalgam of eight University of California campuses)? What are your chances, as vice chancellor, to implement a new undergraduate curriculum? Some of the dimensions of disagreement at Seasauk also exist at Great U, although in more muted form. The faculty feel that *vocational preparation* should rank 15th. The chancellor and administrators rank it 15th and 12th, respectively. Undergraduates, on the other hand, rank it 11th, and the community people, 6th. Interestingly, the lay citizens give this goal an *Is* ranking of 16th, and they clearly would like GU to bestow much higher priority on it.

As at Seasauk, faculty and students disagree about the priority for *individual personal development* as an institutional goal. Faculty rank it 10th, lower than any other constituency. Undergraduates and laymen rank it fourth, higher than all other groups. Significantly, both undergraduates and graduate students give this goal an *Is* ranking of 18th, which means they think GU attaches very low priority to it.

POTENTIAL CONFLICT EMBRACES OTHER AREAS

There are other areas of potential conflict. The *academic development* goal ranks fifth with the professors and the regents. It ranks 14th with the undergraduates, who place it 3rd in the *Is* rankings. Higher rankings for *humanism/altruism* come from undergraduates and community people than from other constituent groups. Likewise, the strongest support for *social criticism* as a university goals comes from the students. All other constituencies rank it 17th or lower, with the lower absolute rating by far coming from the regents.

While it is not clear that the priority given to research at GU must affect the nature of the undergraduate curriculum, it seems reasonable to assume that, if research activities are scaled down, more resources will be available for undergraduate instruction. Attitudes about the importance of research, including its relative importance vis-a-vis other goals, are somewhat complex, judging from the IGI data. Except for the regents, who rank it second, all constituent groups perceive *research* to the top priority goal at Great U today. With regard to the *Should Be, research* drops in rank, but continues to hold a high level of importance. In other words, the various constituencies support sustained emphasis on *research* but want other goals elevated to the same or higher priority. Thus, in the *Should Be* rankings, *research* drop to sixth for faculty, 12th for undergraduates, third for the chancellor and the regents, and eighth for community residents.

There are some important areas of agreement among GU's constituencies. *Community* and *intellectual orientation* are among the top four *Should Be* goals for all groups, and *intellectual environment* fares well, too. All the on-campus constituencies rank *freedom* quite high, while the regents and off-campus residents rank it ninth and 15th, respectively. Likewise, *advanced training* is valued highly by all groups but the undergraduates, and even they accord it a solid absolute importance rating. The regents regard *advanced training* as the top goal in both *Is* and *Should Be* rankings.

So you have something to begin with as GU's academic vice chancellor. At a minimum, the new order should be a community of free intellects, perhaps capable of advancing to the outer edges of *terra cognoscible*. But the professors, usually in accord with the administrators and the regents, want something more. So do the students, often with the support of the townspeople. And the two "mores" are different. What the faculty wants is already rather well developed at GU, but what the students want is only rudimentary and spotty. *Is* scores vary from campus to campus for such goals as *vocational preparation, personal development, humanism/altruism*, and *social criticism*.

On balance, you are in for a difficult time indeed. The sense of community is not impressive at GU, and there is that pervasive feeling of satisfaction with what GU has come to be. It comes as little surprise that the *Is* and *Should Be* gap on *innovation* as a goal is smaller for the faculty here than at any other California institution participating in the IGI survey. And the *Should Be* rating for *innovation* is lowest not only for the Great U faculty but for administrators as well.

The chief source of conflict is between students (and, to some extent, community people) and the rest of the university, largely over the issues of individual personal development, social/political relevancy, and career preparation. Great U being what it is, extensive curricular restructuring is not likely to be forthcoming. Not a few students, in consequense, will choose to seek their educational fortunes in other settings.

Moral: If you let the students go elsewhere, they will.

REFERENCE

1. Peterson, R. E. *Goals for California Higher Education: A Survey of 116 Academic Communities*, Berkeley, Calif.: Educational Testing Service, 1973.

[From Change, May 1974]

GRADUATE EDUCATION: THE NEW DEBATE

(By Charles V. Kidd)

Graduate education and academic science—victims in recent years of federal benign neglect—have been subjected to the scrutiny of an unprecedented series of high-powered national commissions and task forces. But one of the most striking aspects of their successive national reports is that they have been ineffectual in moving federal policy off dead center. They have argued for stability of federal research support, and support has been cut. They have argued for aid to graduate students, and federal aid has been progressively reduced. They have argued for institutional support, and federal institutional support has been all but eliminated.

What then is gained, it might be asked, by a comprehensive look at a series of reports to which so little attention has been paid? Their long-term significance for the goal of a rational public policy toward graduate education lies in the fact that for the first time since the market for PhDs softened and federal support was reduced, we are now arriving at some consensus on many central elements of rationale, purpose, instrumentalities, and the desirable scale of federal support for graduate education.

During the period of five years that these commissions met, we've experienced very rapid change. Both the current and progressive job market for those with advanced degrees has become markedly less favorable. General faith in the capacity of science to solve social problems has declined. Many have become skeptical about the role of universities in society. While student protest convulsed one campus after another, many state legislatures became less favorably inclined toward universities. Accordingly, the reports of 1973 are quite different in tone from those issued in 1968 and 1969. They are less expansive in tone, and often less positive.

The composition of the groups that prepared the reports is also interesting. The Carnegie Commission, which spanned the years 1968 through 1973, was dominated by those with special ties to higher education. The Rivlin report, prepared under the direction of Alice Rivlin, HEW assistant secretary for planning and evaluation, was produced with the help of a group of high government officials and experts. The National Science Board report was prepared under the direction of Philip Handler, then chairman of the National Science Board and now president of the National Academy of Science, with the help of prominent scientists and experts in and out of government. The Hester report was the product of a task force composed of 14 academic administrators (12 presidents and 2 vice chancellors) and 2 businessmen; the chairman of the group was James M. Hester, president of New York University. The National Board on Graduate Education is dominated by distinguished professors. The members of the group that produced the Newman report were primarily staff members of HEW, but university administrators and congressional staff members also participated.

Most of these people have substantial influence in government, universities, and the business world. They have thus tended to reflect the values of those who see the problems from the inside. The reports are basically conservative in that they accept the essentials of the existing system of graduate education. (The one exception is the Newman report, which is more concerned with the needs of students, the use of graduate education to elevate standards of social welfare, and the need to prepare students for positions outside the educational systems.)

WHY FEDERAL SUPPORT?

Most of the reports make the case for graduate education and research in generally similar terms. For example, the 1969 National Science Board report emphasized these themes, which have been repeated in later ones:

Graduate institutions are national resources.

Graduate education produces students and knowledge of wide applicability.

The federal government needs research and graduate students for its own programs.

The federal government is in a special position to redress geographic imbalances and to provide assistance for the development of graduate programs to benefit communities that cannot initially afford them.

Even the Newman report implicity assumes that a major function of federal support should be to encourage reform and responsiveness to social needs. Differences arise, however, when more precise questions are addressed: Why provide federal stipends to graduate students? Is support of institutions a good idea or not; and if so, why, in what form, and how much? How should federal funds be used, if at all, to change the purpose and content of graduate education? What should be the level of support?

Virtually every discussion of graduate education since William James published "The PhD Octopus" in 1910 has reflected tension over the social function of the PhD. In 1969 the National Science Board argued that "encouragement should be given to the development of multidisciplinary graduate programs at both the master's and doctorate level, adapted to the problems of a changing society." Five years later the Carnegie Commission, in College Graduates and Jobs, reiterated the same theme: "Professional schools and academic departments should cooperate in the development of joint degree programs in response to emerging societal problems and in response to the advancement of knowledge or technological change."

The National Board and the Newman reports went beyond the earlier ones to propose federal support to bring about change in two directions. The National Board report assumed that graduate education is basically sound in method and objective but that "the projected decline of the academic market and the newly emerging demand for professionally trained individuals who can contribute to the solution of energy, environmental, and urban problems will require the reallocation of resources within universities in order to develop new professional (and interdisciplinary) graduate programs." The board specifically proposed that we establish a series of large project grants in designated places to expand the research and advanced training base of the fields in question.

The Newman report was somewhat more critical in tone: "National policy must seek to *redirect* graduate education to new social needs, and to improve the productivity of investment in graduate education. . . . The Federal government must now use its leverage to encourage reform." However, its recommendations with respect to the content and purpose of graduate education were not particularly radical. The major difference between the National Board and the Newman reports was that the former stressed research as the major university contribution to the solution of social problems, while the Newman report argued that we should improve the system's capacity to produce people better equipped to deal directly with social problems.

Still, none of these various calls for change in graduate education has seriously affected its actual content and purposes. Students seem mainly to have shifted to fields where a higher proportion of jobs lies outside the colleges and universities. Moreover, the shift has been from one set of disciplines to another, rather than a substantial change within the disciplines themselves.

HOW MUCH FUNDING?

An analysis of these reports on graduate education leads one to conclude that questions of principle and purpose are not in fact separable from questions of dollars, because some of the most important questions of principle can only be answered in budgetary terms. Recommendations are incomplete unless they specify what proportion of the available federal funds should be provided for what ends. One percent is different in principle from ninety percent. A recommendation that a "small proportion of the nation's outstanding students be given federal fellowships for graduate work" becomes much more useful if the number is specified.

The Newman proposal for a program of portable fellowships designed to give students substantially more influence over their graduate curriculum could not have much effect unless fellowships were granted to a substantial proportion of graduate students—perhaps a quarter or a third. We then have to decide whether a program of this size is feasible and whether there are better uses for that money. Obviously, a proposal's general feasibility and acceptability depends on how much it would cost. A set of recommendations that does not call for specific amounts simply abdicates to budget makers the really difficult and critical decisions.

On the criterion of specificity, the reports of the Carnegie Commission and of the National Board on Graduate Education earn high marks. The Carnegie Commission's *Quality and Equality* recommended that "the level of federal funding for university and college research be increased over the next several years but with the annual rate of increase declining from 15 percent in 1970–71 to 10 percent in 1976–77. This rate of increase reflects expanding doctoral enrollments, use of more costly technology, and the need for expansion into new fields of research.

By 1973, the need for stability in federal funding of graduate education and research replaced the earlier pleas for sustained growth. In *Priorities for Action* the Carnegie Commission said:

"Federal support for scientific research should be maintained at the same level as in the 1960s, and on a steady basis in relation to the GNP. More priority should be given to basic research, with more funds for the social sciences and humanities, with awards to individual projects on the basis of merit as determined by panels of academic experts, and with flexibility in assignments of funds to reflect changing possibilities from one field to another."

The National Board on Graduate Education was more emphatic in Doctorate Manpower Forecasts and Policy:

"Short-run, stop-and-go policies toward graduate education and research are highly destabilizing and very inefficient, whatever their origin or motivation. Abrupt shifts in federal policy can be particularly damaging, given the federal government's significant role in supporting research and graduate students. . . .

Major changes in federal policy should be based upon careful evaluation of their impact and should be implemented over several years through a phased process that is coordinated with the affected states and universities. . . . A coordinated federal policy toward graduate education and research does not, in fact, exist. An important first step would be creation of a coordinating agency."

The report took the view that the rapidity and severity of federal cutbacks in the last five years will, if continued, "undermine the nation's capability for high quality graduate education and research."

Both the National Board on Graduate Education and the Carnegie Commission reports of 1973 stressed the significance of federal support for basic research. The National Board report, reflecting views expressed in a number of Carnegie Commission reports, said:

"The real and present danger is that the urgency of current problems will lead to an underestimate of the seriousness of problems to be encountered one to five decades in the future, and to an incorrect assessment of the value of basic research and of the level at which it should be supported. The absence of growth (in real terms) of federal expenditures for basic research in colleges and universities since 1968 is an ominous development."

The Newman report, on the other hand, concentrated on issues that have not been so thoroughly analyzed and debated. Thus, it stated the objectives of federal support in terms which make excellence in traditional PhD programs only one of four objectives:

"The relevant issues of federal policy toward graduate education concern not only the level but the terms of federal support. Specifically, the federal government must seek terms of support which encourage:

excellence among traditional PhD programs, rather than their further proliferation,

greater emphasis on graduate curricula which will give students career options outside academic settings,

new emphasis on professional programs aimed at training individuals to solve the social problems of the seventies and eighties, including an emphasis on the upgrading of the traditionally weak types of professional schools,

effective opportunities for access to graduate education on the part of women, minorities, and older students."

Neither the Newman nor the National Board reports touched in detail upon a number of problems that federal support of academic science creates. As the 1969 Rivlin report noted:

"The project system has many advantages and should be retained, but it has also generated some imbalances: (a) Decrease in professors' loyalty to institutions; (b) Inadequate attention to teaching; (c) Relatively weak support of humanities and social sciences; (d) Overconcentration of federal support in relatively few institutions."

None of the later reports has noted that federal research funds have the de facto power to exercise a strong influence over the content and scale of academic science, and to place the financial fate of many universities in the hands of the federal government. The board did take a firm position on the issue of freedom: "The university must have a large degree of freedom if it is to do effectively for society what society demands of it. The integrity of the university as a center of learning depends on its having access to substantial amounts of relatively unconditional and unrestricted funds."

The Newman report was less concerned about the autonomy of institutions than the need to use federal funds to make institutions responsive to social problems. Although both goals are sound, they essentially conflict. The search for a balance been the two principles will continue.

SUPPORT FOR INSTITUTIONS

From 1968 through 1974, virtually every report bearing upon graduate education and research has stressed the significance of institutional support, but has seen the value of this kind of support in somewhat different terms. The Rivlin report endorsed the idea of a cost of education allowance to accompany federal fellowships, because such an allowance "helps to compensate the institution for the additional cost of taking on the education of a fellowship recipient. The allowance should be raised to a level of perhaps $3,000 per fellowship holder per year, and this figure should be reviewed periodically."

It gave a second justification for institutional support on the ground that "these additional funds will give graduate institutions some additional flexibility so that they can determine how they can best respond to changing developments in our society." The Hester report argued that such support would help "to maintain and develop irreplaceable centers of excellence."

The National Science Board report, in 1969, was the high-water mark of advocating institutional support. It wanted to restructure support of graduate education and research as strongly toward institutions as the later Newman report would have restructured it toward students.

The 1973 report of the National Board on Graduate Education stressed the importance of institutional support as a means of sustaining a balance between two conflicting principles. The first, it argued, is that universities need a large degree of freedom if they are to do effectively for society all the things that society demands of them, and for this they need unrestricted funds. The second is that universities, and graduate education, must be responsive to the needs of society rather than the internally generated goals of existing departments.

The Newman report differed from the others in rejecting the concept of institutional support. (It did propose "companion grants" for federal fellowships which were intended to induce institutions to accept federal fellows, but these would in effect be indistinguishable from the cost of education allowances proposed in other reports.) The report emphatically endorsed the belief that it was desirable and feasible to bring about change in graduate education by channeling virtually all federal support (except research project support) to graduate schools via students.

Even though only the Newman report rejected the principle of institutional support, the 1973 and 1974 reports of the Carnegie Commission and the National Board on Graduate Education proposed a more limited form of instiutional support, and more limited sums, than were proposed in 1968–70.

In the late sixties, reports on graduate education tended to take for granted the continuation and expansion of federal support for graduate students. By 1973 and 1974, however, the rather somber job outlook caused a shift in the rationale for federal graduate fellowships. Both the Carnegie and National Board reports advocated small, merit-based national competitive fellowship programs on two grounds: the nation needs talent, and we must be sure that economic barriers do not prevent the most gifted from undertaking advanced study. The Newman report pointed out that "the manpower issue confronting the nation is no longer simply a question of the quantity of graduates in various fields. . . . As opposed to its previous role of financing the growth of various academic disciplines, national policy must seek to encourage reform and responsiveness to social needs."

All reports issued in the period 1968–1970 recommended that federal graduate fellowships be provided, and the number of fellowships proposed was typically large. For example, in *Quality and Equality* the Carnegie Commission recommended that fellowships be awarded to an annual number of students equal to three fourths of the national total of earned doctorates in the preceding year. That would have been about 15,000 in 1968, and about 22,000 in 1974. In 1969, the Rivlin report recommended that the National Defense Education Act graduate fellowships be expanded to support 30,000 students by 1975, "only 6 percent of the estimated full-time graduate student body in 1975." By 1973, the Carnegie Commission was no longer advocating a large federal graduate fellowship program, primarily because the labor market had rapidly changed.

The National Board on Graduate Education recommended a modest program—2,000 federal merit fellowship awards per year—that would affect about one fourth of one percent of the pool of bachelor's degrees. However, additional federal support would be available to graduate students through research assistantships and through support derived from specialized manpower and research programs. About 5,000 students per year would be aided under the latter program. The board, like the Carnegie Commission, stressed the importance of stability and, "with so many contingencies and so much at stake, careful and continuous monitoring of programs that support graduate education." The Newman report did not indicate how many fellowships it would advocate, but the logic of the report would indicate a number several times as large as the Carnegie and board proposals.

The Newman group and National Board recognized to a greater degree than did their predecessors the significance of work and loans as a proper component of graduate student support. However, their emphasis differed. The Newman report advocated work and nonacademic experience as productive components of a graduate student's training. The National Board favored academically related work, such as research and teaching assistantships.

Recognizing that drastic shifts in the labor market made the views expressed in 1968 obsolete, the later reports concerned themselves with the question: What should be the policy response to a clearly foreseeable sharp decline in the number of new academic jobs, and a murky outlook for new nonacademic jobs for PhDs? In *College Graduates and Jobs*, the Carnegie Commission made this statement:

"Although the Carnegie Commission does not, in general, believe that support of higher education should be geared to manpower requirements, . . . we do believe that there are certain exceptions to this general principle. These are concerned with ensuring the production of an adequate flow of able holders of doctorates who will contribute to the advancement of knowledge and of an adequate supply of physicians and dentists. There is a clear national interest in maintaining an adequate supply of highly educated manpower. We cannot afford to obstruct the flow of young scholars into these fields.

"We therefore believe that there is a case for consistent and sustained federal government support of graduate education, geared to continuous studies of the supply of, and demand for, highly educated scientists and other scholars. Stop and go policies are extremely undesirable, especially in view of the fact that they tend to have disruptive repercussions on the leading research universities that are best equipped to provide high-quality graduate education. . . . We may well witness a reappearance of shortages in engineering and in some of the physical sciences in the near future."

The National Board on Graduate Education prepared a report, Doctorate Manpower Forecasts and Policy, which came to similar conclusions and also noted: "There is a great need to improve the information available on the current and projected state of the labor market for highly educated manpower; however, this should not be done for the purpose of rationing or controlling access to graduate education, but to improve the functioning of the labor market as an allocative mechanism."

The Newman report took the position that:

". . . graduate education should bear a reasonable relationship to opportunities for professional practice. Graduate education is career oriented. It is intensive and focused, whereas much of undergraduate education—as exemplified in the study of liberal arts—is intended for general knowledge and preparation for life. In contrast, the resources of graduate education are devoted to providing the student with certain tools and a base of knowledge for use in a career. . . . Defenders of graduate education cannot have it both ways. They cannot dismiss career opportunities as irrelevant to large-scale funding decisions while justifying the actual use of resources in terms of career-specific goals.

The conclusions that the Carnegie, the National Board, and the Newman Task Force reports drew from the manpower outlook are also generally consistent. They did not justify large federal fellowship programs on the ground that shortages still exist. They all justified federal action to modify the content and purpose of graduate education, albeit in somewhat different directions. They all recognized the need for federal action to improve access to graduate education by minority groups. They stressed the importance of federal action to improve the quality of graduate education, although they defined quality in somewhat different terms. They all placed limited faith in forecasts of the future supply of and demand for PhDs.

GRANT PORTABILITY

All national reports on graduate education have advocated that federal fellowships be available for all fields of study, and most have pointed out that support in fact has tilted toward the sciences. However, most reports advocate that there be a designated division of support by broad field—the sciences and the humanities, for example—and that some fellowships be reserved to attract able students to fields of urgent national concern.

Reports have differed about whether all fellowships should be given to students who then could study at any institution of their choice. In 1968 the Carnegie Commission recommended in Quality and Equality that half the fellowships be awarded in national competition and that half be granted "on the basis of allocations to institutions for certain departments of interdepartmental major programs designated by national panels of experts, and the institutions and departments would then apply their own ability criteria for selection of recipients." In 1969, the Rivlin report also advocated a mixed system.

However, the National Science Board recommended in 1970 that only about 10 percent of federal fellowships be awarded in national competition, leaving the students to choose their place of study. Ninety percent would go to institutions and be paid from federal institutional grants.

The 1973 reports—the Newman report and the National Board report—had points of similarity and difference on this issue. The Newman report advocated portable grants "for the bulk of federal fellowships" primarily "to encourage a new and more effective balance of interest so that graduate education will be less internally oriented." To exert a significant force for change, the number of portable fellowships would have to be quite large—perhaps on the order of 10,000 new starts per year, or five times the number recommended by the National Science Board. The Newman report did not recommend a number, and hence did not juxtapose the "reform" and the "labor market" considerations. Nevertheless, numbers aside, the Newman report is the only one which directed attention to an increasingly acute problem in graduate education—how graduate students can be better trained for careers outside colleges and universities. While the report may not have come up with a universally accepted solution, it did raise the question.

Another major question is whether the federal government should decide how many of the total number of fellowships should go to each field. The National Board report advocated free choice of field for about half of all federal fellowships on the ground that all major areas of study are worthy, and free choice of institution on the ground that the students can best select the institutions at which they should study. However, it recommended that the other half should be awarded by senior investigators in universities for study in specifically designated areas, and these fellowships would not be portable. It assumed that students with special background and motivation are required to work effectively on such problems as protection of the environment, the economics of ecology, urban decay and energy production, conservation and pricing.

Whether granting all federal fellowships directly to students would in fact result in desirable changes in the content and goals of graduate education is debatable. As the Newman report noted, experience with National Science Foundation fellowships awarded directly to students shows that students have tended to swarm to the most prestigious departments. On the other hand, if fellowships were offered in connection with the project grants designed to bring about change in graduate education, the hand of those in universities who wish to innovate would be substantially strengthened, and good students would be attracted to the programs. This device is proposed in the National Board report in connection with grants for research and advanced training related to urgent social problems.

TUITION APPROACHES

In spite of the interrelationships between tuition levels, student aid, and institutional support, little attention was paid in the reports to the economic and social effects of levels of tuition. Indeed, only two reports even mention tuition. The Carnegie Commission in *Higher Education: Who Pays? Who Benefits? Who Should Pay?* (1973) advocated higher tuition for graduate students for a number of reasons, but finally concluded that "the setting of graduate tuition is complex, and situations vary greatly among the MA level, the PhD level, the professions and in other ways." The report then went on to make this significant point: "It would make only a minor difference if tuition charges at this level were higher or lower. Adjustments in fellowships and assistantships levels are likely to minimize any impact upon students."

The National Board on Graduate Education advocated a relatively low tuition policy:

"The existence of national benefits from graduate education argues not for fellowship programs that cover only a fraction of all graduate students. Rather, it argues persuasively for providing subsidies to graduate schools so that the charges to all graduate students will be less than the full cost of producing their graduate education. Tuition must not be so excessive as to discourage large numbers from enrolling in graduate school, thereby losing the social benefits that would accrue to the nation from their advanced education. . . . While modest annual increases in graduate tuition will undoubtedly be necessary for many universities, we are opposed to the large increases that have been advocated by some groups since such increases would have to be offset in large part by increased student aid if opportunities for advanced study are to be kept open. This is especially so because many graduate students are self supporting, are without aid from their parents and are living on a subsistence basis."

The most thorough and extensive program designed to help disadvantaged students undertake graduate work was proposed by the Carnegie Commission in *Quality and Equality* (1968):

"The Commission urges that a federal program be funded under which certain universities, selected on the basis of specific program proposals, undertake the task of identifying potentially able graduates who have not received undergraduate training adequate to permit immediate pursuit of graduate studies. The programs could vary considerably in nature, but each would provide up to one year of intensive work to enable program participants to undertake their graduate studies more successfully. Students selected would receive a stipend based on need for the duration of the program."

This report was noteworthy because for the first time it recognized that the simple provision of fellowships is inadequate to deal with the problems faced by disadvantaged students. (It is also worth noting that the proposal was not reiterated in the later reports of the commission.) The theme reappeared in the 1970 Hester report, which went on to say that new legal provisions should be adopted "specifically designed to enable students from disadvantaged minority groups to enter graduate programs to which few of them have access today." In addition, the Rivlin report of 1969 had equality of access as a central theme. To further this end, a large federal graduate fellowship program—30,000 students supported at any one time—was proposed. However, no special programs for disadvantaged students were cited. The National Science Board report of 1969 did not single out the problems of disadvantaged students.

The Newman report of 1973 placed heavy reliance upon a selection process for fellowships which recognizes motivation and aspiration as a means of establishing greater equality of access. However, the report recommended against giving women or members of minority groups preference in award of fellowships, because to do so would "identify minority fellowships as second class and their holders as less able students."

The board report considered the problems involved in establishing equality of access for ethnic minority groups to be so important and complicated that it will issue a separate report on this matter. The report opposed a need-based program designed to guarantee access to graduate education and advocated the removal of barriers preventing those with the necessary desire and capability from undertaking graduate work.

Put end to end, this major series of analyses of national manpower training needs at the highest levels of knowledge constitutes a major resource for public debate and future federal policy. The studies and recommendations are quite remarkable for their level of debate, consistency of view, the expression of fundamentals, and for the depth in which policy alternatives have been explored. Certainly, the lack of federal response cannot be attributed to any paucity of thought and planning for the future. These reports constitute a testament to a continuing national concern for an appropriate federal involvement in academic science and professional preparation. Graduate fellowships have simply been cut back too fact and too far.

THE LESSONS LEARNED

We must learn our lessons. The objectives and role of graduate education must be more intensively debated, because the long-range changes in the labor market will sharply reduce opportunities in our universities. We should give higher priorities to training specialists not only for industry but for significant social service careers—including health care, social work, and public administration. Means should also be sought to help those students who will follow academic careers to become better teachers. Federal programs should carry built-in incentives and rewards to help bring such changes about.

It is also increasingly clear that a modest number of federal fellowships—about 4,000 new awards each year—is required to assure that the most intellectually gifted young men and women will attend graduate school, and to channel a moderate proportion of them into long-range, problem-solving activities in such fields as energy. About half of all federal graduate fellowships should be awarded nationally on the basis of merit, with award winners choosing their own fields and places of study. The other half should be awarded locally to students to study specific areas of special national concern.

In terms of dollars spent, about $60 million in federal funds should be made available to colleges and universities each year to help cover the costs of graduate work, and about $70 million to institutions of higher learning to make the project research system more effective. Some modest funds should also be allocated to improve and change graduate education.

Long-range planning for graduate-level manpower preparation must be seen in time frames of half decades at least, rather than responding to annual fluctuations in the labor market, a knee-jerk policy that is bound to prove self-defeating. To yoke federal planning in the graduate education sphere to current employment and unemployment data is indefensible in terms of sound social policy.

One cannot argue against moderate increases in graduate study tuitions, but these should come into effect slowly so that the necessary changes in other sources of student income can be made. It is also important to provide special federal programs to ensure equality of access to graduate study for disadvantaged and minority students, but such efforts should be separated from the general merit-based fellowship program.

After the exuberant expansion of the sixties—30,000 PhDs per year in 1969 as contrasted with 10,000 per year in 1960—only moderate increases in the number of PhDs are called for. Quality rather than expansion must now be the center of attention. And quality must be measured in terms of teaching ability and our national capacity to attack and solve complex problems, and not only in terms of our capacity to carry on research in our leading universities.

Guides for thought as to how this nation can proceed with the advanced training of the talented young are now spelled out in a remarkable set of national reports. It is up to the political leadership to see how these documents of the late sixties and early seventies might shape American advanced training in the eighties.

MAJOR REPORTS ON GRADUATE EDUCATION

These recent major reports have dealt with federal policy on graduate education:

Quality and Equality: New Levels of Federal Responsibility for Higher Education. Carnegie Commission on Higher Education, 1968 (cited here as Quality and Equality).

Toward a Long Range Plan for Federal Support for Higher Education. A Report to the President. Assistant Secretary for Planning and Evaluation of the Department of Health, Education and Welfare, 1969 (cited here as Rivlin Report).

Toward a Public Policy for Graduate Education in the Sciences. National Science Board, 1969 (cited here as National Science Board).

Priorities in Higher Education. The Report of the President's Task Force on Higher Education, 1970 (cited here as Hester Report).

College Graduates and Jobs. Carnegie Commission on Higher Education, 1973 (cited here as Graduates and Jobs).

Higher Education: Who Pays? Who Benefits? Who Should Pay? Carnegie Commission on Higher Education, 1973 (cited here as Who Pays).

Priorities for Action. Final Report of the Carnegie Commission on Higher Education, 1973 (cited here as Priorities for Action).

Report on Higher Education: The Federal Role. Graduate Education. Report of a Task Force on Higher Education (Frank Newman, chairman), 1973 (prepublication copy, cited here as the Newman Report).

Federal Policy Alternatives Toward Graduate Education. National Board on Graduate Education (David Henry, chairman), Report Number Three, January 1974 (cited here as Board Report).

Doctorate Manpower Forecasts and Policy. National Board on Graduate Education Report Number Two. November 1973.

Three additional reports dealing with graduate education did not explore the federal role:

Assembly on University Goals and Governance, Martin Meyerson, chairman. First Report (American Academy of Arts and Sciences, 1971).

Panel on Alternative Approaches to Graduate Education, J. Boyd Page, president of the Council of Graduate Schools in the United States, chairman. Scholarship for Society (Graduate Record Examination Board and Council of Graduate Schools in the United States, 1973).

National Commission on the Financing of Postsecondary Education. The Financing of Postsecondary Education, 1973.

STUDENT FINANCIAL ASSISTANCE—PART 5

(State Programs)

THURSDAY, JUNE 6, 1974

House of Representatives,
Special Subcommittee on Education of the
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Dellenback, Lehman, and Huber.

Staff members present: A. C. Franklin, counsel, and Elnora Teets, clerk.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Today we begin the fifth phase of our student assistance hearings. Up until now and in subsequent parts of the hearings we will be examining existing Federal programs carried out under title IV of the Higher Education Act. The higher education investments of the States are the most impressive part of the act and State student assistance programs may well suggest models from which we at the Federal level can learn.

In fact, if you will keep in mind that the evidence is not all in yet and I foreclose no options whatsoever, I don't mind saying that one of the options we ought to consider is the proposition of providing substantial incentives to the States to work out their own student assistance programs, subject, of course, to carefully drafted Federal legislative standards. I can see some problems in that proposition, too, but I would not rule it out as an alternative before the subcommittee.

At this point, I think it would be useful if we inserted the text of the statutory authority for the State Student Incentive Grant Programs.

[The statute referred to is title IV, part A, subpart 3 of the Higher Education Act of 1965, as amended:]

Subpart 3—Grants to States for State Student Incentives

PURPOSE; APPROPRIATIONS AUTHORIZED

Sec. 415A. (a) It is the purpose of this subpart to make incentive grants available to the States to assist them in providing grants to eligible students in attendance at institutions of higher education.

(b)(1) There are hereby authorized to be appropriated $50,000,000 for the fiscal year ending June 30, 1973, and for each of the succeeding fiscal years ending prior to July 1, 1975, for payments to the States for grants to students who have not previously been awarded such grants.

(2) In addition to the sums authorized to be appropriated pursuant to paragraph (1), there is authorized to be appropriated such sums as may be necessary for making payments to States to continue their grants to students made with incentive grants received by such States for previous years pursuant to paragraph (1).

(3) Sums appropriated pursuant to paragraph (1) for any fiscal year shall remain available for payments to States for the award of student grants under this subpart until the end of the fiscal year succeeding the fiscal year for which such sums were appropriated.

(4) For the purposes if this subsection, a payment on the first year of a student grant with respect to any student who has not been awarded a grant from appropriations pursuant to paragraph (1) during any previous year shall be considered, subject to regulations of the Commissioner, an initial award to be paid from appropriations pursuant to paragraph (1).

(20 U.S.C. 1070c) Enacted June 23, 1972, P.L. 92-318, sec. 131(b)(1), 86 Stat. 255, 256.

ALLOTMENT AMONG STATES

SEC. 415B. (a)(1)(A) From the sums appropriated pursuant to section 415A (b)(1) for any fiscal year, the Commissioner shall allot to each State an amount which bears the same ratio to such sums as the number of students in attendance at institutions of higher education in such State bears to the total number of such students in such attendance in all the States.

(B) For the purposes of this paragraph, the number of students in attendance at institutions of higher education in a State and in all the States shall be determined by the Commissioner for the most recent year for which satisfactory data are available to him.

(2) The amount of any State's allotment under paragraph (1) for any fiscal year which the Commissioner determines will not be required for such fiscal year for the State student grant incentive program of that State shall be available for reallotment from time to time, on such dates during such year as the Commissioner may fix, to other States in proportion to the original allotments to such States under such part for such year, but with such proportionate amount for any of such States being reduced to the extent it exceeds the sum the Commissioner estimates such State needs and will be able to use for such year for carrying out the State plan; and the total of such reductions shall be similarly reallotted among the States whose proportionate amounts were not so reduced. Any amount reallotted to a State under this part during a year from funds appropriated pursuant to section 415A(b)(1) shall be deemed part of its allotment under paragraph (1) for such year.

(b) Sums appropriated pursuant to section 415A(b)(2) for any fiscal year shall be allotted among the States in such manner as the Commissioner determines will best achieve the purposes for which such sums were appropriated.

(c) The Commissioner shall make payments for continuing incentive grants only to those States which continue to meet the requirements of section 415C(b) (1), (2), (3), and (5).

(20 U.S.C. 1070c-1) Enacted June 23, 1972, P.L. 92-318, sec. 131(b)(1), 86 Stat. 256.

APPLICATIONS FOR STATE STUDENT INCENTIVE GRANT PROGRAMS

SEC. 415C. (a) A State which desires to obtain a payment under this subpart for any fiscal year shall submit an application therefor through the State agency administering its program of student grants, at such time or times, and containing such information as may be required by, or pursuant to, regulation for the purpose of enabling the Commissioner to make the determinations required under this subpart.

(b) From a State's allotment under this subpart for any fiscal year the Commissioner is authorized to make payments to such State for paying 50 per centum of the amount of student grants pursuant to a State program which—

(1) is administered by a single State agency;

(2) provides that such grants will be in amounts not in excess of $1,500 per academic year for attendance on a full-time basis as an undergraduate at an institution of higher education;

(3) provides for the selection of recipients of such grants on the basis of substantial financial need determined annually on the basis of criteria established by the State and approved by the Commissioner;

(4) provides for the payment of the non-Federal portion of such grants from funds supplied by such State which represents an additional expenditure for such year by such State for grants for students attending institutions of higher education over the amount expended by such State for such grants, if any, during the second fiscal year preceding the fiscal year in which such State initially received funds under this subpart; and

(5) provides (A) for such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of and accounting for Federal funds paid to the State agency under this subpart, and (B) for the making of such reports, in such form and containing such information, as may be reasonably necessary to enable the Commissioner to perform his functions under this subpart.

(c) Upon his approval of any application for a payment under this subpart, the Commissioner shall reserve from the applicable allotment (including any applicable reallotment) available therefor, the amount of such payment, which (subject to the limits of such allotment or reallotment) shall be equal to the Federal share of the cost of the student incentive grants covered by such application. The Commissioner shall pay such reserved amount, in advance or by way of reimbursement, and in such installments as he may determine. The Commissioner's reservation of any amount under this section may be amended by him, either upon approval of an amendment of the application or upon revision of the estimated cost of the student grants with respect to which such reservation was made, and in the event of an upward revision of such estimated cost approved by him he may reserve the Federal share of the added cost only from the applicable allotment (or reallotment) available at the time of such approval.

(20 U.S.C. 1070c–2) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 256, 257.

ADMINISTRATION OF STATE PROGRAMS; JUDICIAL REVIEW

SEC. 415D. (a)(1) The Commissioner shall not finally disapprove any application for a State program submitted under section 415C, or any modification thereof, without first affording the State agency submitting the program reasonable notice and opportunity for a hearing.

(2) Whenever the Commissioner, after reasonable notice and opportunity for hearing to the State agency administering a State program approved under this subpart, finds—

(A) that the State program has been so changed that it no longer complies with the provisions of this subpart, or

(B) that in the administration of the program there is a failure to comply substantially with any such provisions,

the Commissioner shall notify such State agency that the State will not be regarded as eligible to participate in the program under this subpart until he is satisfied that there is no longer any such failure to comply.

(b)(1) If any State is dissatisfied with the Commissioner's final action with respect to the approval of its State program submitted under this subpart or with his final action under subsection (a), such State may appeal to the United States court of appeals for the circuit in which such State is located. The summons and notice of appeal may be served at any place in the United States. The Commissioner shall forthwith certify and file in the court the transcript of the proceedings and the record on which he based his action.

(2) The findings of fact by the Commissioner, if supported by substantial evidence, shall be conclusive; but the court, for good cause shown, may remand the case to the Commissioner to take further evidence, and the Commissioner may thereupon make new or modified findings of fact and may modify his previous action, and shall certify to the court the transcript and record of the further proceedings. Such new or modified findings of fact shall likewise be conclusive if supported by substantial evidence.

(3) The court shall have jurisdiction to affirm the action of the Commissioner or set it aside, in whole or in part. The judgment of the court shall be subject to review by the Supreme Court of the United States upon certiorari or certification as provided in title 28, United States Code, section 1254.

(20 U.S.C. 1070c–3) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 257, 258.

Mr. O'HARA. Our witnesses today and next Monday will be talking to us about the programs in the several States. Our first witness will be

Mr. Richard H. Johnston, president of the National Association of State Scholarship Programs. Mr. Johnston, if you will please take a place at the witness table, we would like very much to hear from you. We are going to have to move along this morning, because the House, which traditionally goes into session at 12 noon, has unexpectedly decided to go in at 11, so we will have an hour less than we anticipated for our hearings this morning.

What we are going to do, in view of the time problem, is have each of the several scheduled witnesses make their statements and then we can assemble you all around the table as sort of a panel and direct questions to you.

Mr. Johnston, we would like to hear from you.

STATEMENT OF RICHARD H. JOHNSTON, PRESIDENT, NATIONAL ASSOCIATION OF STATE SCHOLARSHIP PROGRAMS, ACCOMPANIED BY RONALD IVERSON, VERMONT, PRESIDENT-ELECT, AND RONALD JURSA, MICHIGAN, PAST PRESIDENT

Mr. Johnston. Mr. Chairman and members of the subcommittee, my name is Richard Johnston and I am appearing as president of the National Association of State Scholarship Programs. Appearing with me are Ronald Iverson, Vermont, president elect, and Ronald Jursa, Michigan, a past president of the organization. On behalf of NASSP we want to express our appreciation to you for the invitation to participate in these critically important oversight hearings on title IV of the Higher Education Act.

The National Association of State Scholarship Programs presently consists of representatives from the States with existing State-sponsored scholarship and/or grant programs. Due to the recent flurry of State activity associated with the SSIG program the national association will soon boast a membership of at least 40 States, and we anticipate that within a relative short period of time all 50 States plus the District of Columbia and the five outlying areas will be active members.

It is the purpose of our testimony today to make three important points. First, that the State student incentive grant program be continued and fully funded; second, that the States now offer the Federal Government a viable complementary, or in some cases an alternative mechanism for the delivery of student aid resources; and third, that NASSP strongly endorses those efforts already underway to improve the integration and coordination of the delivery system for student aid from all sources, Federal, State, and institutional.

1. *State student incentive grant program.*—Few Federal programs have had a more dramatic and rapid response than that which has been experienced in the State student incentive grant program. When you consider the fact that legislative action was required in many States, the response to SSIG is even more amazing. Despite the low level of initial year funding for SSIG in fiscal 1974, the incentive feature has been dramatically effective in increasing the number of States with State scholarship and grant programs.

The Governors of the 50 States, plus the District of Columbia and the five outlying areas have been contacted by the U.S. Office of Education regarding their interest in participating in the SSIG program beginning with the 1974–75 academic year. To date 51 positive responses have been received including the 28 States with ongoing programs; 12 States and territories which have enacted new programs to begin in 1974–75; and 11 States and territories which hope their legislatures will adopt matching State programs before March 31, 1975. Only five States and territories have no program plans at this time. A table indicating the current status of the various States and territories is attached to this testimony.

From what we now know about SSIG has served as a direct incentive for 23 States and territories to enact matching programs.

The $19 million in Federal SSIG funds will be matched by $19 million in new State funds, thereby providing grants to 76,000 students in 1974–75. For a great number of these students the Federal/State SSIG grant will be the critical factor influencing their decision to pursue a postsecondary educational opportunity in 1974–75. In addition, many of these students will be from middle-income families.

It is, therefore, essential that the State student incentive grant program be funded at least at the full level of authorization for new awards, $50 million, and continued beyond fiscal 1975 for three critical reasons: first, to continue the commitment made to those students funded in 1974–75; second, to insure the continued development and expansion of existing State programs and the enactment of a program in every State; and third, to encourage the advent of a permanent and viable Federal/State partnership in student financial aid.

We applaud the Congress for the flexibility it has provided the States in the administration of the SSIG program. We have already seen, in the short period the program has been operational, however, two areas where additional flexibility is needed.

We offer these two specific recommendations for changes in the law:

a. The distinction between initial and continuation awards should be discontinued in order to give the States the ability to most effectively use their SSIG allotments. The present continuation funding feature may cause the States to target SSIG funds in certain ways in order to insure maximum funding for continuation awards.

This may result in a distortion in the objectives of the State matching program. Some States, for example, may desire to aid students enrolling in programs of less than 4 years' duration; others may desire to target the grants on low-income, high-risk students. Under both of these strategies States would risk losing potential continuation funding. The solution is to discontinue the distinction between initial and continuation awards and give the States the additional flexibility to use their entire SSIG allotment to most effectively meet the objectives of the State matching program.

b. The current allotment formula, based on student enrollments, also works a hardship on a number of small States and territories. In fiscal 1974, for example, 13 States received less than $100,000 in SSIG funds. It is recommended that the law establish a minimum level of funding of $100,000 for all States and appropriate minimum levels for the territories. In this way Congress can maximize the incentive feature of this program even for the smaller States.

We are confident that if the SSIG program is made a permanently funded element of title IV of the Higher Education Act, and if the recommended changes are made in the program, it is much more likely that all 50 States will soon be actively participating in a cooperative effort to assure an educational opportunity for all citizens.

2. *States as Delivery Mechanism.*—Historically the Federal Government has utilized the Federal-institutional relationship to deliver its support to students enrolled in post-secondary education. While the Higher Education Act of 1965 did provide for State administration of the guaranteed student loan program, not until the enactment of the Higher Education Amendments of 1972 and the creation of the State student incentive grant program did the Congress recognize the potential of a Federal/State partnership.

This is curious in light of the overwhelming success of the State commissions created by the Higher Education Facilities Act of 1963 in all but eliminating the higher education physical space shortages then facing the Nation. The success of this joint effort is a matter of public record and beyond dispute.

We would argue that the Federal Government has available to it this same delivery mechanism which can serve to complement or provide an alternative to procedures in the student aid area. For example, a State model for the administration of the basic grants program has been developed, which is attached for your review.

Similarly, several States have already developed or are actively considering the enactment of State work-study programs. Given the recent interest in the work-study alternative, we suggest that the subcommittee seriously consider the role of the States in an expanded work-study effort. A matching program, for example, might well serve to stimulate further State activity in this area, on the one hand, and promote Federal objectives, on the other. In short, the States can and should be active participants in the delivery of student financial aid.

3. *Improved coordination of financial aid programs.*—Clearly one of the highest priorities facing all of us is to quickly eliminate the chaos, duplication of effort, and confusion which now exists in the delivery of student aid resources. It has been suggested, and we certainly agree, that a virtual "paper barrier" has been erected in this country which likely inhibits the full participation of all eligible students in higher education. It is not uncommon for a single student to complete four different applications for aid and have his need evaluated in as many different ways, each, of course, producing a different outcome. It is little wonder that many students, particularly those who most need the aid, are bewildered by the present structure.

These issues have been addressed forthrightly for the first time in the task force on the management of student assistance programs issued by the U.S. Office of Education. As a followup to this report two national work conferences have since been sponsored by the Office of Education: Work Conference on the Federal-State Partnership in Student Assistance and Work Conference on the Federal-Institution Partnership in Student Assistance.

The task force report, the work conferences and the growing recognition of this critical problem have produced a national consensus that order must now be made of the present chaos. To this end the national association strongly endorses the recommendations of the Federal-State work conference which are attached to this testimony.

Even now joint efforts are underway to seek solutions to three critical problems:

1. The need for a common data application form to be used by all students to apply for all programs;

2. The coordination of a Federal-State-institutional delivery system; and

3. Student financial need assessment.

The National Association strongly and enthusiastically supports work in these areas and while not requesting legislative action at this time, we urge you to recognize these efforts and encourage their continuation to a successful conclusion.

In summary, let me reiterate our three critical points: SSIG should be continued and fully funded; the States offer the Federal Government a viable alternative mechanism in the delivery of student aid resources; and NASSP strongly endorses efforts to improve the integration and coordination of the Nation's student aid delivery system.

Mr. Chairman, your consideration of these remarks is greatly appreciated. We welcome the opportunity to respond to any questions you or members of the subcommittee might have.

[Attachments follow:]

DEVELOPMENT OF STATE SCHOLARSHIP-ASSISTANCE PROGRAMS FOR SCHOOL YEARS 1971-72 TO 1975-76, BASED UPON PRE-SSIG PROGRAM APPLICATION DATA

Assistance programs	Ongoing before SSIG[1]		Programs added, including SSIG		No program plans (5)
Existing 1971-72 (23):	Added 1972-73 (3):	Added 1973-74 (2):	Added 1974-75 (12):	To be added 1975-76 (11):	
California	Alaska[2]	Missouri	Colorado	American Samoa	Alabama
Connecticut	Maine	North Dakota	Delaware	Arkansas	Arizona
Florida	Tennessee		Georgia	Louisiana	District of Columbia[3]
Illinois			Idaho	Mississippi	Guam
Indiana			Kentucky	Montana	Hawaii
Iowa			Nebraska	Nevada	
Kansas			Oklahoma	New Hampshire	
Maryland			Puerto Rico	New Mexico	
Massachusetts			South Dakota	North Carolina	
Michigan			Utah	Trust Territory	
Minnesota			Virginia	Wyoming[3]	
New Jersey			Virgin Islands		
New York					
Ohio					
Oregon					
Pennsylvania					
Rhode Island					
South Carolina					
Texas					
Vermont					
Washington					
West Virginia					
Wisconsin					

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[1] Derived from Dr. Joseph Boyd, Illinois State Scholarship Commission, table entitled "Dollars and Number of Awards and Related Data by States for Comprehensive Undergraduate State (Competitive and Noncompetitive) Programs of Financial Aid Based upon Need for Residents of the State to Attend Either Public or Nonpublic Colleges and Universitys."

[2] Not participating in SSIG.

[3] No formal response from Governor as of May 6, 1974.

BASIC EDUCATIONAL OPPORTUNITY GRANTS, THE STATE ADMINISTRATIVE MODEL, JUNE 1974

INTRODUCTION

The thesis of this paper is that State agencies could easily be used in each state as the primary coordinative body for the administration of the Basic Grants program.

ASSUMPTIONS BEHIND THE STATE MODEL

The State agency model described below is based on the following assumptions of Congressional intent with regard to the BEOG program:

(1) *Entitlement*—BEOG is provided to eligible students as a matter of right.

(2) *Equalization*—The ultimate goal of BEOG is to insure equality of educational opportunity for all students.

(3) *Early Knowledge*—That students must know the amount of their BEOG in advance of a final decision regarding educational plans.

(4) *Foundation*—That BEOG is intended to be the foundation or floor for other federal programs, as well as state and institutional programs.

(5) *National Standard*—That one "national standard" of need will be established for the BEOG program with little if any local variation allowed.

REASONS TO CONSIDER THE STATE MODEL

(1) The proposed state model would set in motion implementation of a real federal-state-institutional partnership. Such a concept is consistent with the goals of revenue sharing and creative federalism.

(2) The proposed state model would be a way to insure more effective coordination of existing federal, state, and institutional programs. Presently there is no effective way for the various "sources" of student aid to deliver their aid to students. Much work is being duplicated by each source and aid is not always delivered to those of greatest need.

(3) The track record of the existing 21 state administered guaranteed student loan programs has proven the quality of State administration. Even OE is now willing to admit that the evidence with respect to student loan defaults suggests that state administered GSL programs clearly have outperformed the federal guaranteed loan program. There are also several examples of federal-state partnerships outside of OE which prove that such a program can work, e.g., transportation and employment service.

THE STATE MODEL IN OPERATION

Following is a step-by-step description of how a state model could work in administration of BEOG. Advantages are noted and alternatives suggested. Wisconsin examples are offered which obviously would vary in each state.

(1) Public information, identification application procedure

(a) The state agency would provide a program of public information to interested and prospective students about BOG specifically and financial aids in general. Both traditional and nontraditional approaches would be employed. The agency would continue to provide public information through the high schools, e.g., workshops, newsletters, parents' nights, etc. In Wisconsin nontraditional approaches of program information would also be used. Specifically a statewide talent search program currently funded by the state, OE, NIH, and Safe Streets would concentrate its efforts on the "nontraditional" (disadvantaged) segment of the population. Efforts would be made to fully inform the adult population of benefits available. Since the objective would be to inform all students of aid opportunities, it would be devoid of *any institutional biases.*

(b) The student would complete one application form and need analysis document. By doing so he would be automatically considered for BOG and then all other available forms of aid at all institutions in which he might be interested. This single application process has been in existence in Wisconsin since 1965 and has proven highly successful.

(2) Determination of need and BOG amount

Upon receipt of the application and need analysis form, the state agency would audit the forms for completeness and accuracy. A need analysis would then be done. Two options are available:

(*a*) The state agency could use its own computer capacity.

(*b*) The state agency could contract with a service bureau, e.g., CSS, ACT, etc.

In either case the need analysis would be done using the ***national standard curve*** adopted by OE for BOG.

Once the need analysis is completed the amount of the BOG would be calculated. It would be an automatic determination, little, if any flexibility allowed (errors could be corrected). This becomes the BOG entitlement or federal floor.

(3) *State entitlement determination*

Once the federal BOG is determined the state would build its award on top of the BOG. In Wisconsin, a supplemental award or state entitlement could be awarded from one or a combination of the following programs:

(*a*) State incentive grant with state match from Talent Incentive Program (Maximum $1,500 to students enrolled in public, private or proprietary schools)

(*b*) Honor scholarship program (Maximum $900 to freshmen only in public or private schools)

(*c*) Tuition Grant (Maximum $900 to students enrolled in private schools)

(*d*) Wisconsin Higher Education Grants (Maximum ⅔ of students's need, public schools)

(*e*) Indian Student Assistance Grant (Maximum $1,500 to Indian students enrolled in public, private, proprietary schools)

[NOTE: In the case of those states which elected not to adopt the national standard curve for purposes of their state programs an additional computation could be done by the computer to arrive at the state's need figure. Computer technology is available for this additional calculation, and in fact ACT and CSS have already readied their computer for this eventuality.]

(4) *Initial award notification to student and school*

Once the federal BOG and state awards have been determined this information would be communicated by the state agency to both the student and the school. If a student had indicated an interest in more than one school he would be informed of the BOG and state award amount for each of his choices.

Each institution would receive a copy of the need analysis document and a printout indicating the following:

Student's name, address, social security No.

Total cost-- $----
Expected family contribution-- -----

Gross need-- -----
BOG entitlement-- -----
State entitlement-- -----

Net need-- -----

(5) *Institutional packaging*

Once the institution received the printout it would then proceed to use its supplementary resources to meet the student's remaining need. In Wisconsin, the financial aid office would have the following sources of aid at his disposal to "package" the remaining need:

(*a*) Federal: Supplementary educational Opp. grants, college workstudy, national defense loans.

(*b*) Institutional: Grants and scholarships, non workstudy employment, short term loans.

(*c*) Direct student loans, guaranteed student loans, State workstudy.

(6) *Final award notification to student*

Once the institutions have completed their packaging, the student would be sent a final formal award announcement. The student would be requested to send a notice of "intent to enroll" (or voucher) which would identify his choice of institution to the state agency coordination the BOG program. From this notice, the state agency would prepare the BOG check and the appropriate state aid checks. All funds would be sent to the institution for disbursement to the student along with other federal and institutional aid checks under the direct control of the school.

(7) *Creation of a formal appeal procedure*

This comprehensive approach could include a formal appeal procedure for use by students who felt aggrieved or unfairly treated. The appeal steps might include the following:

(*a*) Direct appeal to financial aid officer for administration review.

(*b*) Appeal to institutional appeals committee made up of an equal number of students and non students and not appointed by the financial aid officer.

(*c*) Appeal to a state appeal committee appointed by the state agency and made up of a majority of students.

(*d*) Final appeal to state board or commission.

Identified problems

In presenting this proposal to several interested persons, some questions have been raised. Following is a list of questions and suggested solutions to the problems identified:

(*1*) *What about States which do not have State agencies?*

This is the old GSL question which in the view of many has never been adequately resolved. There are several reasons to believe that state agencies could be encouraged in every state. First, the State Incentive Grants program will require designation of a single state agency in every state to administer the state incentive grants program. Secondly, there are now existing in every state higher education facilities commissions created by the Facilities Act of 1963. These commissions receive federal funds for administration, but recent cutbacks in federal funding of the facilities programs has significantly reduced workload pressures. HEA'72 calls for the creation of Postsecondary Education Commissions (Section 1202) in every state. It is not unreasonable to expect these commissions to be interested in student aid.

In those states which would not be willing to designate an administering agency, the federal government could either run it directly or contract with a service agency, e.g., CSS, ACT, etc. This alternative is obviously not the best and some incentives would have to be created to encourage slow states to react.

(2) *How Can OE Insure Accountability?*

It is argued that several states have an outstanding record of performance while others do not, and further that some states might frustrate Congressional intent to serve all students equitably. No doubt accountability will be necessary regardless of who administers the program. Requiring accountability of 50 states, however, will be much easier than requiring accountability of 4,000–6,000 institutions. It would be expected that each participating state would be required to enter into a "performance contract" with OE, just as the guarantee agencies already have done. States would be required by regulation to meet these performance requirements.

(3) *What About Students Going Out-of-State and Coming Into the State?*

Clearly this is a minor administrative problem which could be resolved by designating either the sending state or the receiving state as the responsible agent for those students. It is conceivable that the state agency could serve both types of students, probably the best solution, however, would be to designate the receiving state as responsible.

SUMMARY

An attempt has been made to set out in some detail a state model for administration of the BOG program. The model would enable the federal government to administer BOG without creating a huge central bureaucracy and without direct responsibility for accountability on the part of the thousands of schools in the country. The model also insures coordination of student aid programs administered by a variety of sources.

Finally, the model while decentralizing administration, in no way limits the federal government through OE to set specific programmatic guidelines and requirements, e.g., national standard of expecations, standard emancipation definition, standards for eligible students costs and treatment of special circumstances, and accreditation requirements for proprietary schools.

Richard H. Johnston,
President, National Association of State Scholarship Programs.

RECOMMENDATIONS FROM THE NATIONAL WORK CONFERENCE ON THE STATE-FEDERAL PARTNERSHIP IN STUDENT ASSISTANCE, WASHINGTON, D.C., MARCH 22, 1974

BASIC GRANT PROGRAM

1. *Recommendation:* That the unused portion of the Basic Grant appropriation for 1973–74 be carried over and added to the 1974–75 awards rather than to use the unused portion at such a late date to supplement the 1973–74 awards; in addition, the steps presently contemplated to prevent recurrent under-utilization of funds in 1974–75 be actively supported by all interested parties.

Recommendation addressed to: DHEW/USOE and the U.S. Congress.

2. *Recommendation:* That the plans and procedures to provide State agencies with periodic reports of Basic Grant applications by State of origin be extended to all States based on the latest available information from the Governors of the States concerning the State or State-designated agency or agencies which have a bona fide interest in such information, with appropriate safeguards provided to protect the confidentiality of individual data.

Recommendation addressed to: Office of Student Assistance, Division of Basic Grants.

3. *Recommendation:* That the processing of the Family Contribution Schedules by Congress and the United States Office of Education be completed in a manner which permits the distribution of Basic Grant applications in September of the year preceding the time the students apply for receipt and use of Basic Grant awards.

Recommendation addressed to: DHEW/USOE and the U.S. Congress.

4. *Recommendation:* That the Basic Grant regulations be revised to permit the use of either the immediate prior year estimated tax data or the last preceding year of validated tax data, or both, as the basis of the Family Contribution Schedule. Implementation of this recommendation would mean that, for the 1975–76 Basic Grant awards, estimated tax data for 1974 and/or actual verified tax data for 1973 would be used.

Recommendation addressed to Office of Student Assistance, Division of Basic Grants.

5. *Recommendation:* That in order to permit maximum coordination of State and Federal student assistance programs, a question should be added to the 1975–76 Basic Grant application in which the student can indicate the State in which he/she is a *legal* resident.

Recommendation addressed to: Office of Student Assistance, Division of Basic Grants.

6. *Recommendation:* That action be taken to include in the work of the Task Force on Management of Student Assistance Programs a clarification of inconsistencies and confusions, real or perceived, between the entitlement procedures in the Basic Grant Program and the needs analysis procedures in other Federal and State student assistance programs.

Recommendation addressed to Office of Student Assistance.

STATE STUDENT INCENTIVE GRANT PROGRAM

7. *Recommendation:* That action be taken to assure that the State Student Incentive Grant Program is funded at the full level of authorization and continued in the future in order that the "incentive" feature of the program will be fully productive.

Recommendation addressed to DHEW/USOE, OMB and the U.S. Congress.

8. *Recommendation:* That action be taken to allow money made available to States through appropriations in one fiscal year to be made available for allotment or reallotment during the next fiscal year.

Recommendation addressed to: DHEW/USOE and the U.S. Congress.

9. *Recommendation:* That the determination of "substantial financial need" be felt to the discretion of the States, with the approval of the U.S. Commissioner, in preference to efforts to establish any national norm.

Recommendation addressed to: Office of Student Assistance, State Student Incentive Grant Program Unit.

10. *Recommendation:* That reporting requirements by State agencies be limited to an annual summary of demographic data on State Student Incentive Grant recipients, rather than any requirement for individual listings of recipient data. However, such individual accounting should be available from the State agency for audit purposes.

Recommendation addressed to: Office of Student Assistance, State Student Incentive Grant Program Unit.

11. *Recommendation:* That agreement for state participation in SSIG be entered into on a continuing basis rather than an annual basis.

Recommendation addressed to: Office of Student Assistance, State Student Incentive Grant Program Unit.

CAMPUS-BASED SFA PROGRAMS

12. *Recommendation:* That the present Regional panel review process should be discontinued and replaced by a broadly representative State review process, with recommendations for institutional funding transmitted from the State review panel to the appropriate Regional Office of Education. The State review process should be conducted either—

(1) under the auspices of the Regional Office of Education, with broad representation from State agencies, postsecondary educational institutions and other appropriate groups or persons; or

(2) under the auspices of a State agency, where such an agency is designated by a Governor to perform this function, with broad representation from state agencies, postsecondary institutions, and other appropriate groups or persons.

Recommendations addressed to: Office of Student Assistance, Division of Student Support and Special Programs.

13. *Recommendation:* That action be taken to permit a State to file a single application for support under campus-based programs on behalf of all postsecondary institutions in the State.

Recommendation addressed to: Office of Student Assistance, Division of Student Support and Special Programs.

14. *Recommendation:* That action be taken to give appropriate State agencies a "Vendor Code Number" and to provide those agencies with copies of grant awards made to all institutions in that State. Such agencies should also receive regular reports supplied to the U.S. Congress.

Recommendation addressed to: Office of Student Assistance, Division of Student Support and Special Programs.

15. *Recommendation:* That the tri-partite application should be simplified and clarified so as to collect only data directly related to the request for Federal funds. Data already available from other sources should not be included.

Recommendation addressed to: Office of Student Assistance, Division of Student Support and Special Programs.

GUARANTEED STUDENT LOAN PROGRAM

16. *Recommendation:* That sufficient personnel and resources be provided to enable a ten-day turnaround in the processing of Guaranteed Student Loan Applications.

Recommendation addressed to: DHEW/USOE/DCM/Office of Guaranteed Student Loans.

17. *Recommendation:* That USOE and any other necessary agency take immediate action to exclude the Guaranteed Student Loan program from the provisions of OMB Circular A–70, as Revised, in order to permit the State Governments to make such loans and the Federal Government to insure then.

Recommendation addressed to: USOE/DCM/Office of Guaranteed Student Loans and to the Office of Management and Budget.

TASK FORCE REPORT

18. *Recommendation:* That the spirit of Federal-State-Institutional partnership recommended by the Task Force on Management of Student Assistance Programs, and the coordinated strategy for implementation suggested by the Report, is strongly endorsed for implementation as soon as possible.

Recommendation addressed to: USOE/U.S. Commissioner of Education/Bureau of Postsecondary Education, Office of Student Assistance.

19. *Recommendation:* That action be taken to expedite the clearance processes within the Office of Education and the Department of HEW in order to permit the Office of Student Assistance to carry out the coordinated strategies outlined by the Task Force on Management of Student Assistance.

Recommendation addressed to: DHEW/USOE/Bureau of Postsecondary Education.

SECTION 1202 STATE COMMISSIONS

20. *Recommendation:* That the Federal Government stand by its announced policy to leave the implementation of the "broadly and equitably representative" requirements to the discretion of the Governors, based on all applicable Federal laws including the provisions of Title VI of the Civil Rights Act of 1964 and Title IX of the Education Amendments of 1972, as well as the provisions of Section 1202 of the Higher Education Act, as amended.

Recommendation addressed to: DHEW/USOE/Office of Student Assistance State Planning Commissions Program Unit.

21. *Recommendation:* A majority of the States have agencies that can plan and coordinate Federal, State and Institutional student assistance programs to maximize educational opportunity for all of their citizens. Those States which do not have this capability should move to establish it as soon as possible, since an effective Federal-State-Institutional partnership will require that all States have an organization capable of effective planning and coordination in the student assistance field. Federal planning funds provided under Section 1203 of the Higher Education Act may be helpful to the States, but the basic support for the development of this capability will have to come from the States themselves.

Recommendation addressed to: Office of Student Assistance State Planning Commissions Program Unit.

GENERAL RECOMMENDATIONS

22. *Recommendation:* That action be taken to bring about the creation of a common application package which students can use to apply for Federal, State, institutional and other forms of student assistance, including financial information necessary to perform various need analysis calculations in accordance with program requirements, and that these actions be accomplished as soon as possible.

Recommendation addressed to: Office of Student Assistance, State agencies, NASFAA, etc., and to the U.S. Congress.

23. *Recommendation:* That action be taken to permit the Office of Student Assistance to develop common terms and definitions, including definitions of educational cost elements, and to share these with the States; but that these efforts should not imply support for development of normative cost formulae for determining student aid components.

Recommendation addressed to: DHEW/USOE and the U.S. Congress.

24. *Recommendation:* That the Office of Student Assistance, its constituent Divisions, Program Units and Regional Offices be provided with sufficient additional personnel and resources to ensure adequate administration, analysis and reporting, institutional guidance, and adequate program review in student assistance programs.

Recommendation addressed to: DHEW/USOE/Deputy Commissioner for Management.

25. *Recommendation:* That Federal and State agencies recognize the shared responsibility for providing adequate and appropriate funding for administrative functions performed by both State agencies and postsecondary institutions.

Recommendation addressed to: DHEW/USOE, State Legislatures and to the U.S. Congress.

26. *Recommendation:* That the States seek to maximize public awareness of student assistance programs and that Federal and State efforts in the dissemination of such information be better coordinated.

Recommendation addressed to: Office of Student Assistance and State agencies.

27. *Recommendation:* That actions be taken to provide the opportunity for a single State agency to conduct the training for Basic Grant and other programs within the particular State.

Recommendation addressed to: Office of Student Assistance.

28. *Recommendation:* That a data information system, capable of being updated on a regular basis, be developed to provide information on student financial needs and resources on an aggregate state-by-state basis.

Recommendation addressed to: Office of Student Assistance and State Legislatures.

29. *Recommendation:* That the Commissioner of Education be strongly commended for authorizing and supporting the efforts of this National Work Con-

ference and that such efforts at improving the State-Federal Partnership in student assistance continue with frequency.

Recommendation addressed to: U.S. Commissioner of Education.

Mr. O'HARA. Thank you very much, Mr. Johnston.

Our next witness will be Mr. Joe Boyd from the Illinois State Scholarship Commission.

STATEMENT OF JOSEPH D. BOYD, EXECUTIVE DIRECTOR, ILLINOIS STATE SCHOLARSHIP COMMISSION

Mr. BOYD. Mr. Chairman and members of the committee: My name is Joseph D. Boyd, executive director of the Illinois State Scholarship Commission. I appreciate this opportunity to testify on State scholarship/grant programs and to strongly encourage the inclusion of the role of the States in any new comprehensive Federal legislation on student aid. An expanded partnership between the Federal and State Governments in the delivery of tax dollars to financially needy postsecondary students should be one of the underlying purposes of any revised title IV of the Higher Education Act. We must work together to overcome gross problems of coordination on the providing of student aid to the students of this country.

Since 1969 I have surveyed each year what the States are doing in comprehensive, undergraduate, need-based monetary award programs as investments in the future of both the individual and society. My latest survey, October 1973, has been shared with this committee. As you will note, in 1973-74 there were 28 States—representing 77 percent approximately of the U.S. population—assisting 722,000 financially needy undergraduates with approximately $375.3 million State tax dollars.

Growth in State programs of monetary awards has been both dramatic and consistent as noted in the following history of the past 5 years:

GROWTH OF STATE SCHOLARSHIPS/GRANTS TO NEEDY STUDENTS SINCE 1968-69

Academic year	Award dollars (millions)	Students assisted
1968-69	$152.0	370,000
1969-70	191.15	488,000
1970-71	229.3	579,000
1971-72	268.6	604,000
1972-73	312.3	652,000
1973-74	375.3	722,000

You will note in 5 years the State growth is up $223 million, or two and a half times more dollars in 1973-74 over 1968-69. In 1973-74 the 28 states provided more nonrepayable aid to students than the combined award value of both the Federal SEOG and Basic Grant programs.

The current State programs vary greatly in size, purpose, and years in existence. Five States (New York, Pennsylvania, Illinois, California, and New Jersey) are investing 70 percent of the 1973-74 total dollar figure of $375.3 million in students from their States. These same 5 states represent about 34 percent of the U.S. population.

It is my considered judgment that the State Student Incentive Grant (SSIG) program will not only motivate up to at least 14 new State programs in 1974–75 that would not have existed otherwise, but also permit States with existing programs to more rapidly expand their programs to meet the needs of their State residents. The $19 million of SSIG funds for fiscal year 1975 creates a partnership of about 5 percent Federal/95 percent State funds in 1974–75.

Additional SSIG funds in future years, requiring additional dollars of State funds, will mean every dollar of such Federal funds is at least $2 of additional grant aid to needy students. A meaningful partnership is to begin which has a most significant potential in the years ahead to accomplish mutual goals of access and resonable choice to the citizens of this country in entering and completing their postsecondary plans.

State and Federal student aid monetary award programs must exist to complement and not overlap or replace each other. Allow me to suggest how this best can be accomplished.

The Federal program of basic grants is predominantly "access" money targeted to low income and the disadvantaged to help permit students to attend some college and not necessarily any college. Almost all State programs have been planned to provide both "access" and "reasonable choice" to the needy student. When State programs are of sufficient total dollars or when certain State programs are made available only to higher cost schools ($37.3 million or about 10 percent of the 1973–74 total State monetary award dollars were programs of tuition equalization at nonpublic institutions), need is determined on a relative basis. Relative need means the financial strength of a given family or applicant is compared with the total cost of the institution of the applicant's choice and if there is a difference, an award is made as long as state funds are available.

Many State programs are, therefore, assisting thousands of families who would not qualify for a basic grant. A partnership which provides basic grants as predominantly "access" funds and State funds to predominantly provide "reasonable choice" is both clear in purpose and allows each partner to play a significant role in what distinguishes the United States from other countries of this world. Students of all ages seeking additional education after high school should not have financial barriers keeping them from this opportunity and in addition this country can also proclaim that a strong dual system of public and nonpublic institutions is desirable by providing needy students a reasonable choice among the institutions which can best serve his or her interests and future plans.

To accomplish these mutual goals a huge problem of coordination must be dealt with and solved. I strongly support the development of a common student aid application and, in addition, believe authority should be given to States (those who can demonstrate their ability to accomplish same) the right to calculate and announce basic grant entitlement to its State residents. Without coordination, almost $1 billion of basic grants and State awards in 1974–75 are simply not going to reach fully or equitably all the persons for whom the funds are intended.

Timing of decisions is a vital necessity in good coordination. State planning in student financial aid becomes most difficult until clear and timely Federal student aid decisions are made and clearly communicated. Reasonable stability of Federal student aid programs in purpose and funding levels is another vital ingredient in the future strength of any new Federal partnership with the States.

States can be a delivery agent for Federal student aid dollars. Certain coordination has already begun. This month in most States a listing of all their basic grant applicants for 1974–75 awards will arrive to permit a packaging of State and Federal funds. The basic grants can become a "floor" upon which to build any additional needed and available State aid.

Federal aid programs and funds for students enrolled in post-secondary education require a "delivery agent" to implement such benefits to the students for whom they are intended. As a working partnership, under a creative new federalism, contracts of understanding with specific authorities and responsibilities can and should be made available to State scholarship agencies already staffed and experienced in dealing with students applying for financial assistance.

The ultimate goal is to permit a student or his family to file a single application form and have a concise response as to what, if any, Federal and State taxpayer educational benefits are his or hers to use at the institution of their choice. For services rendered, each state so participating should receive appropriate Federal funds for administrative costs. Appropriate Federal audit functions would be expected and a sharing of data to compile meaningful national as well as data systems should also be mandated.

The full development of our human resources should be our highest priority of State and National concern. Significant well-funded and coordinated student aid programs give evidence of this priority and concern.

I, too, will be pleased to answer any questions.

Mr. O'Hara. Thank you, Mr. Boyd.

We will now hear from Mr. Richard Millard, Director of Higher Education Services of the Education Commission of the States. Mr. Millard.

STATEMENT OF RICHARD MILLARD, DIRECTOR, HIGHER EDUCATION SERVICES, EDUCATION COMMISSION OF THE STATES

Mr. Millard. Thank you, Mr. Chairman.

Mr. Chairman and honorable members of the committee: My name is Richard Millard, director, Higher Education Services, Education Commission of the States. I very much appreciate the opportunity of appearing before the Special Subcommittee on Education in connection with its consideration of title IV on student assistance.

The concern of the States, including the higher education executive officers as expressed through the Education Commission of the States, with the development of an adequate and effective student assistance program utilizing Federal, State and institutional resources considerably antedates the Education Amendments of 1972. In the fall of 1969 the commission established a task force on student assistance, chaired by the then-Governor of Nebraska, Hon. Norbert T. Tiemann, and including in its membership a cross-sectional representation of the higher educational and political communities and persons knowledgeable and concerned with student assistance at State, institutional, and Federal levels.

The report of the task force, Postsecondary Educational Opportunity: A Federal-State-Institutional Partnership, was completed in February 1971, and adopted by the steering committee of the Education Commission of the States as commission policy.

The central conclusion or theme of the task force report was:

> From the standpoint of public policy the prime need is for a real Federal-State-institutional partnership in making equality of educational opportunity more of a reality in this country. Such institutional-State-Federal partnership in complementation of efforts alone can assure substantial progress in meeting the needs of students combined with reasonable, efficient, and effective allocation of existing and future aid resources.

The report went on to urge that in the operation of the partnership, "A comprehensive program of student assistance, including opportunity grants, work-study, loans, and self-help from students and parents, is essential." It urged the States to continue to develop their own comprehensive programs available to students in all types of postsecondary institutions excluding only those where funding would violate State constitutions or the Federal Constitution. It argued that the Federal role should be reinforcement and equalization of opportunity among States and in cooperation with the States help close the remaining student assistance gaps.

It is our belief that this task force report has had some impact on the States and on the Federal Government. Both through the Education Commission of the States and with the assistance of the National Association of State Scholarship programs, the State higher education executive officers and others, the report was widely circulated to key State and Federal legislators and officials. At least the concepts the report expressed coincided with State and Federal concerns.

Dr. Joseph Boyd in his testimony has documented the growth in State comprehensive need-based student assistance programs. Funding of these programs, without encouragement of the State student incentive grant program, has increased over $106 million since 1970–71. If one adds in partially need-based tuition equalization grants, the increase is closer to $129 million, or a total in 1973–74 in excess of $387 million.

Prior to announcement of the State student incentive grant funding, 35 States had authorized programs of some form of student aid although some of these States had not yet funded the programs. The overwhelming evidence of the States' readiness for such a partnership, of course, lies in the number of States that have responded to the State student incentive grant program, as reported in Mr. Richard Johnston's testimony.

On the Federal level the task force report may have had at least some impact on inclusion within the Education Amendments of 1972 of the State student incentive grant program and reinforcement of the basic educational opportunity grants along with subsequent efforts to obtain funding.

To some extent the task force report is past history, but I think the principles involved are directly germane to today and to the work of this committee. While important steps have been taken, we are still a considerable distance from the State-Federal-institutional partnership the report envisaged. Dr. Boyd has rightly insisted that State and Federal student aid monetary awards should exist to complement each other and not overlap or replace each other. Currently, even with some improvements, the situation would still have to be described as chaotic.

Given present Federal student aid programs, the States should use their resources to reinforce and supplement Federal funds. This currently is impossible since neither the information, the funding patterns, nor the operational liaison exist which permit the States in any systematic way to carry out such reinforcement. Federal programs have been so fragmented that it is impossible even to plan effectively at the State level for such supplementary efforts, let alone merge State resources with Federal resources in meeting the needs of students.

It is thus essential, as an important current Office of Education task force report—referred to earlier—proposes, that there be effective coordination of student aid programs at the State level. Such coordination should involve correlation of information and delivery mechanisms in relation to State and Federal programs, such as the basic educational opportunity grants, but should also include correlation with information from institutions about federally funded institutional programs.

It is crucial that assessment of student needs on the State level takes place. It can be effectively argued that only on the State level can realistic and undistorted assessment of student needs occur. Institutional assessment can only relate to students who apply to or are accepted at such institutions. State assessment can assure reasonable balance including assessment of needs of potential students who because of extent of need or other factors fail to apply or be accepted at particular institutions.

This is not to argue that Federal funds for institutional programs should pass through, be distributed or even be approved by the States. It is, however, to recognize that comprehensive information on the State level is essential to effective coordination and complementation of State, Federal, and institutional programs.

The State Student Incentive Grant program is clearly critical to effective coordination both from the standpoint of further encouraging States with incipient programs or no programs to develop them and from the standpoint of strengthening existing programs and operations. But, in addition, if the States are to assume a major role in coordination of student aid programs, including collection of information and coordination in delivery, this will mean additional expense, and we strongly suggest at least the desirability in encouraging such coordination of the Federal Government sharing in the information, collection, and administrative costs of States as well as the present type of institutions.

Another essential factor in effective coordination of programs, as both Mr. Johnston and Dr. Boyd have urged, is the development of a common student application form that could be used by Federal, State, and institutional programs and progress is being made in this direction. In addition, approximation of or movement toward a common needs analysis or at least identification and explicit analysis of common factors in varying needs analyses would be highly desirable.

At least two other areas in which the State-Federal-institutional partnership could be strengthened should be mentioned and these may well require specific legislation. One is in connection with the guaranteed loan program. In the past the Federal Government has been schizophrenic in regard to whether guaranteed loan programs operationally should be State based or federally based. As you are well aware, in about half of the States the programs are State based. In the other States they are not.

The incentives to date have not favored State programs. This should be corrected. This committee and Congress have already taken action to drop the needs analysis for some middle-income families. This is a major step forward. In addition, we would strongly suggest that the law be modified to allow for varying types of loans on the State level, including State income contingency loan repayment schedules.

Finally, one important recommendation in the Education Commission of the States Task Force report that is still worthy of consideration is the development in connection with institutions and the Federal Government of effective State work-study programs. A few States have their own work-study programs, but only a very few.

The task force report argued:

> States and institutions should be encouraged to expand * * * work-study program opportunities so that, whenever possible, students may choose work rather than loans as central to the student's self-help portion of the student aid program * * * . Self-help through work on a limited basis, if properly planned, can have important educational as well as monetary value, can help students in career choices, and can provide reliable experience in areas related to future careers.

We would urge continuation and expansion of the current institutionally based work-study program, but we would also urge provisions of encouragement to the States in cooperation with institutions to develop State work-study programs with adequate planning for work experience as well. This may well require effective planning to insure that appropriate jobs and not makeshift jobs are, in fact, available.

Mr. Chairman and members of the committee, the opportunity for developing an effective Federal-State-institutional partnership that will come close to the national goal of providing access and choice to all students who desire and are capable of benefiting from it has never been greater. The various components of existing student aid programs, if effectively coordinated and funded, can make this a reality. The States have given every indication of willingness to cooperate. We would suggest to the committee that such effective coordination should become the next major order of business in student assistance. Thank you.

Mr. O'Hara. Thank you very much.

Our next witness will be Mr. Robert Sather, who is director of student financial aid at the University of Wisconsin.

STATEMENT OF ROBERT SATHER, DIRECTOR OF STUDENT FINANCIAL AID, UNIVERSITY OF WISCONSIN

Mr. Sather. I will submit my written remarks and offer a summary.

Mr. O'Hara. Without objection, your complete statement will be placed in the record.

[Statement follows:]

PREPARED STATEMENT OF ROBERT SATHER, DIRECTOR OF STUDENT FINANCIAL AID, UNIVERSITY OF WISCONSIN

PREFACE

The product of higher education is a great resource for all society. Higher education is a prime determinant for the quality of life in our country. Individuals are helped to develop their abilities and trained to realize their full potentials. The individuals in turn utilize this increased capability to both strengthen and develop new assets for our state, our naton and the world at large. Therefore, we must recognize higher education as a vital national asset.

To sustain the progress we have made, society must continue to fulfill its responsibility to provide opportunities for higher education. The government must maintain and even increase its support of higher education so that every qualified and interested individual has the opportunity to pursue higher education.

And yet there are some who would seek to penalize individuals for the experience and opportunity they gain from higher education. They would seek to do this by holding the students directly responsible for paying the costs of their education, either through immediate payment or the assumption of long-term debts. To do so would be to obviate higher educational opportunities for many individuals. It should be noted that students today are paying an increasing share of the instructional costs as well as incurring considerable financial sacrifice both through foregone income and the contribution they make to their living costs and instructional-related expenses.

The past twenty years have witnessed the greatest surge in higher education enrollment in the history of our nation. During these two decades the State of Wisconsin, in common with most other states, has met the challenge for facilities and instruction to a degree that would have been believed impossible at the time the great demand began. Most of the physical plant expansion has been completed. Except for the replacement of antiquated facilities and a few isolated expansion programs, the next twenty years should see the diminution of building activity to a point comparable with the period prior to World War II. Enrollments have leveled and, in fact, there is even a prediction of some slight decrease in the total higher education population within the next decade. The stabilization or decrease should enable us to cease extraordinary increases in funding and place us in a position of maintaining the present level with a full recognition for increases due to inflation.

It is ironical, then, that at this point in time—when we have just concluded a period characterized by maximum funding for public higher education for the largest number of students ever to be enrolled in the population and paid for by taxpayers representing the smallest proportion of the total population—we find it necessary to change our whole concept of financing higher education in order to meet contemporary needs. This fact becomes more significant on recognition that we move into a period with a larger proportion of working population and more taxpayers, while the decreasing birthrates and changes in emphasis on higher education have brought about a much smaller proportion of the population in the traditional higher education age brackets.

FACTORS TO CONSIDER

During the present time of financial accountability, any change in or replacement of the system of financing public higher education at the federal or state level must consider several points: (1) to enable all qualified individuals to pursue a post-secondary education; (2) to examine economical methods of financing post-secondary education; (3) to encompass the most efficient utilization of resources; (4) to relieve individuals of substantial future debt; (5) to weigh the age of majority implications.

Currently there are numerous projected model plans available to finance higher education. However, each plan studied by this committee had not allowed for or considered all of the above listed points of concern. The writers of several model plans tended to portray their vested interests toward the advantages of special interest groups without analyzing the total current or future ramifications in adopting such a course or plan of action.

CHARGE

The charge to this committee by Chancellor Leonard Haas and Dr. Wilmer Pautz, Chairman of the Faculty Senate, was to study six areas of concern and make recommendations relative to those concerns. The areas considered by this task force were:

I. To examine the position of the American Association of State Colleges and Universities on recent proposals for financing higher education.

II. To review the recent Department of Administration's proposal involving the development of a new loan program to replace present state financial aid programs.

III. To consider the implications of the 18 year age-of majority rule in financing post-secondary education.

IV. To make recommendations relative to the needs for financial aids to students in terms of breadth of financial help.

V. To consider alternatives to meet the rising costs of higher education.

VI. To provide suggestions for new sources of revenue for further development due to increasing needs and rising costs.

AMERICANS ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES POSITION

The Ad Hoc Committee on Financing Higher Education supports the basic concept of the American Association of State Colleges and Universities Position on financing higher education as stated in the following resolution passed on November 7, 1973:

Whereas the American Association of State Colleges and Universities believes that the American system of low-tuition public education is a priceless national resource, and

Whereas millions of middle-income and lower-income American families have benefited and continue to benefit from low tuition, their college education having equipped them for better service to the entire nation, as more productive and useful members of society, and

Whereas the effect of the substantial tuition increases recommended by several nationally-circulated reports would be to bar many deserving and qualified young people from higher education, or to force them to take out expensive loans and begin their adult life with large, long-term debts, and

Whereas student aid is not and cannot be a substitute for low tuition, but rather is an essential supplement to insure that no qualified student is denied opportunity because of lack of funds, and

Whereas Federal and state student aid programs are subject to the annually shifting political and economic priorities of governments and private lenders and are undependable means to aid low and middle income students, and

Whereas low tuition is a long-term guarantee of education opportunity, and

Whereas direct institutional aid at the Federal and state levels is essential to maintain lower tuition and at the same time to provide resources necessary for teaching, research, and public service,

Now, therefore, be it resolved, That the American Association of State Colleges and Universities firmly supports the centry-long concept and practice of low tuition in public higher education.

DEPARTMENT OF ADMINISTRATION AND OTHER PROPOSALS

The task force analyzed the positive and negtive aspects of the Wisconsin Guaranteed Higher Education Plan—WGHEP. It also considered the Wisconsin Higher Education Opportunity Plan—WHEOP (Hansen-Weisbrod Study); the Thackrey Paper; The Brookings Institution Study; and The Carnegie Commission Study. (See Appendix I.)

AGE OF MAJORITY

It is the belief of the commission that the problems associated with changes in the age of majority must not be allowed to vitiate the availability of opportunities for higher education. The intentions of the changes in definition of age of majority have been to recognize maturity and level of development of young men and women. These changes must not now be interpreted in such a way as to diminish opportunities for further individual development through higher education.

The impact of the new age of majority on the financing of higher education is as yet uncertain. To date no Wisconsin or Federal court has been faced with the issues as they affect the university. Thus, we can only speculate as to what may happen.

The issue is by no means a moot one at the moment. We are currently confronted with at least two possible substantial implications of eighteen-year-old adult-hood: (1) The effects on parental income as a determinant of student financial need; and (2) possible losses in income from out-of-state tuition as a result of the issue's effect on current residency requirements.

Does the state have the right to structure a student's financial aid package along lines consistent with parental income? Federal courts have ruled that an individual cannot be denied food stamps on the grounds that his or her parents' income exceeds the maximum limit established by the federal government. This decision might well foreshadow things to come. Thus if it is determined that a parent's income cannot be used in the determination of financial need we are almost certainly going to see an increased demand for existing financial aid dollars.

Prior to eighteen-year-old majority there was little problem with residency requirements. Most out-of-state students attending Wisconsin colleges and universities were unable to qualify as residents of Wisconsin due to their legal infancy. However, now that the vast majority of out-of-state students are adults we must ask whether the state has the right to deny them Wisconsin citizenship and resident tuition rates. It should be noted that University of Wisconsin-Eau Claire has 437 nonresident students, paying over $450,000 more than the resident tuition.

To attempt to second guess precisely what the courts will decide in regard to these issues is risky at best. At the same time, it seems likely that new questions will arise from time to time. It may well be that the courts will find nothing wrong with our present residency requirements or financial aids policies. However, we must keep in mind that we are also dealing with the public and the legislature. Both groups are taking a hard look at the new age of majority and their decisions may have as much impact as those of the courts.

PRESENT AND POTENTIAL SOURCES OF FUNDING

The Ad Hoc Committee on Financing Higher Education has studied the present sources of funding as well as the potential sources of future funding. The sources of present funding are reflected in Appendix II. The potential future sources of funding are listed below and detailed in Appendices III and IV.

A. Use present sources.
B. Increase level of state funding.
C. Changes in the tax structure.
D. Increase the level of private and federal funding.
E. Increase efficiency of use of present resources.

PROPOSED WISCONSIN HIGHER EDUCATION PLAN

The Ad Hoc Committee on Financing Higher Education recommends that the proposal written by Robert Sather be considered and endorsed by the Faculty Senate as an alternate method to provide financial aid to students in higher education in Wisconsin. (See Appendix V.)

APPENDIX I

WISCONSIN GUARANTEED HIGHER EDUCATION PLAN (WGHEP)

Positive

(Features)

1. No tuition increase.
2. Removes parental contribution in determining need for financial assistance
3. Advances from the State directly to students to attend institutions of their choice.
4. Provides a repayment plan based on the students' income after completion of the program.
5. Provides a State interest subsidy program based on income.
6. Provides full utilization of the federal student aid structure.
7. Eliminates the fear of the poor and disadvantaged students that money borrowed must be repaid regardless of their income.

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(Outline)

1. Students would receive up to a maximum amount for living costs and tuition at schools of their choice.

2. Financial need could be based on either a) Family financial status or b) Emancipated student financial status.

3. Student would sign 2 notes: a) Federal loan note agreeing to repay in 10 years; b) State loan agreement in which the State would repay the Federal note if the student agrees to repay State on an income contingency basis for up to 25 years or until note is repaid.

4. Notes would be guaranteed 100% by Wisconsin Higher Education Corporation.

5. No interest payment while in school and either market rate or 7%, depending on income after leaving school. Federal government pays 7% while student is in school.

6. Students' principal repayment and interest would be contingent on actual earnings after leaving school (low income=low repayment; higher income=higher repayment.)

7. Present loan limits are $2,500 per year, maximum $10,000, repayment in 10 years. WGHEP would exceed these loan limits and give up to 25 years for repayment.

8. The present private loan program could continue with WGHEP repaying the loan within 10 years, but allowing the student 25 years.

Negative

(Features)

1. While it's true that the WGHEP plan would not foster a tuition increase, this is not to say one wouldn't occur.

2. Parents' would no longer be able to claim students over 18 as deductions even though they may still pay expenses at least in part.

3. Since repayment schedule is based only on income, conceivably many students would repay little or nothing.

4. Where do funds for State interest subsidy come from?

5. Plan presumes continuation of present Federal aid structure even though this has considerably decreased in recent past.

6. The plan may encourage the incurring of debts without obligation to repay.

(Outline)

1. With the plan both tuition and living costs could continue to skyrocket.

2. What will costs be for extending repayment schedule from present 10 years to 25 years?

3. How much additional cost would there be in guaranteeing loans and making good on those defaulted?

4. How much additional will it cost the State to keep up in[illegible]t payments both while student is in school and for up to 25 years thereafter?

5. Students' could conceivably receive a free ride to 4 years college while other students and taxpayers made up the difference and interest.

6. WGHEP could conceivably loan $10,000 or more a year plus interest.

7. There would be increased debt to taxpayers for payments during 10 years plus spreading repayment over additional 15 years.

8. All existing State grants and scholarships would be phased out.

9. Funds for financing programs would not come from GPR but possibly from State Returement Funds.

10. The program while conceivably helping the student meet his present needs, seems to encourage him to assume a debt of considerable magnitude which he would carry and be forced to meet for up to 25 years. The effect this debt would have on additional borrowing (car, business, home loans, etc.) seems not to have been considered.

WISCONSIN HIGHER EDUCATION OPPORTUNITY PLAN

(Hansen-Weisbrod Study)

Positive

1. Would replace present grants to public institutions with grants directly to students. This would a) offset the limited financial resources of lower income students and, b) allow them to use the money to enroll in either public or private schools.

2. About 35% of the families would gain under their proposal; 20% would neither gain nor lose.

3. Adoption of the proposal, say the authors, would save the State $28–$32 million dollars. This might be used to 1) lower taxes; 2) provide a funding source for other programs; 3) provide additional grants.

Negative

1. This would make all students pay the full cost of their education, costs which may be expected to keep rising.

2. The proposal admittedly discriminates against middle and upper income students, even though they pay taxes too. The program would, therefore, constitute a form similar to dovble taxation.

3. Based on their own figures, 45% of the population would have to pay (at present) between $500–$950 additional per year to educate their children.

4. The premise upon which their proposal is based is the assumption that the primary beneficiary of college education is not society, but the individual.

5. Admittedly, this program would put public and private institutions into competition with each other for students' dollars.

THACKREY PAPER

1. Thackrey believes we need to move rapidly to lower instructional charges for undergraduate education, (both tuition costs and that of construction and maintenance of facilities for instruction.)

2. He believes special aid to the economically disadvantaged should be continued. (Grants, scholarships, low-interest loans, employment opportunities.)

He answers three major objections to these plans:

1. The "Afford to Pay" argument;
2. The "Free Market" argument;
3. The "Fair Competition" argument.

THE BROOKINGS INSTITUTION STUDY

This is a summary of a study which looked at the 1974 Federal Budget. It sees three possible ways of budget reform:

1. Cut domestic spending.
2. Cut defense spending.
3. Tax reform.

Only the first seems likely.

The authors see the present Basic Grant system as having built-in funding problems which gives less help than it should. An alternative plan, similar to Basic Grant, would stipulate that those students from families with incomes under $11,100 (National median income) would get assistance; those above would get nothing.

THE CARNEGIE COMMISSION REPORT

The Commission proposes that the Federal Government enlarge its share of the study paid to higher education. It also recommends a "temporary" reduction of the comparative charge of money from private individuals relative to that from public funding be undertaken to make possible more attendance by students from lower income families.

The report recommends untied aid by local governments to private schools as means of decreasing the gap between public and private schools. It suggests sharing the total costs to governments for higher education 50–50 between Federal and State. (At present, State 57.5—Federal 42.5)

They favor more direct aid to students rather than to institutions with lower income students the chief beneficiaries. Tuition costs should vary with levels—lower for Freshman-Sophomore; higher for Junior-Senior and Graduate.

They also recommend that public school tuition costs be allowed to rise to ⅓ that of private schools (to narrow the social gap) but not without increasing grants for lower income students to still attend.

The panel makes 13 specific recommendations (see Report pp. 4–5).

An answer to the Carnegie report was written by Allen Ostar, Executive Director, American Association of State Colleges and Universities to New York Times, 7/20/73.

He points out that the Commission's recommendation of higher tuition for middle income families would not guarantee more access to lower income students and would, in fact, probably force more students into debt, if not denying them an education.

I. SOURCES OF PRESENT FUNDING

APPENDIX II

UNIVERSITY OF WISCONSIN SYSTEM, 1973-74

	UW-EC amount	Percent of total	University cluster amount	Percent of total	University system amount	Percent of total
1. Government funds:						
(a) State appropriation	$12, 782, 295	55	$113, 844, 622	57	$283, 777, 905	50
(b) Federal appropriations and grants	1, 677, 959	7	13, 166, 494	7	94, 673, 900	17
Subtotal	14, 460, 254	62	127, 011, 016	64	378, 451, 805	67
2. Gifts, grants, endowment inclusive	60, 594		619, 318		16, 324, 522	3
3. Student fees:						
(a) Academic tuition	3, 963, 662	17	33, 018, 512	17	71, 560, 600	12
4. Operational and auxiliary	[1] 5, 001, 836	21	[1] 38, 440, 403	19	[1] 102, 253, 590	18
Grand total	23, 486, 346	100	199, 089, 358	100	568, 590, 517	100

[1] Segregated fee income included.

Source: "University of Wisconsin System 1973-74 Budget."

APPENDIX III

POTENTIAL SOURCES OF FUTURE FUNDING

A. Use present sources.

B. Increase level of state funding.

1. Attempt to increase, though increased public relations efforts, the public support for increased state funds in higher education. Such funds could be put into decreasing tuition, increasing work study programs, and grants.

2. The university and the state have endorsed the "Wisconsin Idea" in principle. In order to achieve full implementation of this principle, it will be necessary that the state provide funds in addition to those funds required for local programs now in existence.

C. Changes in the tax structure.

1. Through tax legislation, expand incentives for individuals, businesses, and others to donate funds to universities.

2. Attempt to alter the present income tax laws to allow a percentage of any donations to a state funded agency to be used as a tax credit.

3. Attempt to alter the present income tax laws so that individual expenditures for educational expenses be excluded from taxable income (see app. IV).

D. Increase the level of private and federal funding.

1. Attempt to increase the amount of support from individuals, businesses, and others by actively seeking gifts, bequests, and grants from such sources. Emphasis should be placed on seeking requests.

2. Increase efforts, as individual faculty members and as a university community, to find new and innovative methods of teaching courses within given disciplines so that additional private or federal funds might become available.

3. Expand efforts to receive private and federal funding for departmental research.

E. Increase efficiency of use of present sources.

1. During periods when university facilities are not being used to capacity, attempt to encourage use of these facilities through cooperative efforts with the community. This could include institutes, workshops, and conventions.

2. Increase efforts, as individual faculty members and as a university community, to find new and innovative methods of teaching, management of teaching, and university management with the intent of improving efficiency without losing effectiveness.

APPENDIX IV

INCOME TAX DEDUCTIONS FOR FINANCING HIGHER EDUCATION

Recent lowering of the age of majority in various states has provided for independence at age 18. These changes have cast in limbo the legality of use of parental income as a means of defining needs of the college student for financial assistance. This condition, together with fiscal exigencies of the states, has prompted proposals for revision of the method of financing higher education toward having the students bear the full cost of their education and finance it by means of loans. Meanwhile, the only financial incentive for parental support of the student is the standard income tax deduction to age 24.

Loans, while serving well to provide for a small portion of the total cost of the student's higher education, involve an increase, in comparison with direct support, in the cost of higher education either for the loan insurer or the individual. The recently suggested long-term loans with duration of up to 25 years entail doubling the cost of higher education for every eleven years of loan duration at the current rate of nine percent interest. If the loan is carried the entire 25 years without payment, the total cost to the insurer, who may ultimately pay the cost, is two-and-one-half times the original cost. Of course, the taxpayer, in the case of loans not paid by the individual, will pay the cost. Individuals who pay off the loans within ten years will be paying as much as twice the original cost of their education.

If it is recognized that an educated people is a national resource, then it is clearly appropriate that financing of higher education is a necessary and appropriate responsibility of government. In the present technological age, maximal education of the people is a major national resource. Education is a prime requisite for maintenance and development of technology as well as for the development of knowledge and the decision-making talent, which is necessary for direction of technology to maximum benefit of the people and the nation. This importance of education in the technological age is equivalent to the importance of land as a natural resource in the agricultural period and to the importance of labor during the rise of industry.

Independent of its economic values as a national resource, education is a significant ingredient of the quality of life of the people. It ranks with health, the organized church, and welfare programs in its importance as a determinant of the quality of life of the nation. This value of education cannot be wholly judged in terms of economic value.

Recognition of the resource and quality of life values of education obviates relevance of questions that have been raised regarding who benefits from higher education and the attempts to decide the question of who should pay for higher education in accord with the answer to the question of who benefits. Access to public health benefits, the tax advantages of the organized church, the airports and railroads, and public welfare are not conditioned on who benefits. Neither is access to these benefits conditioned on who pays. Their access is based on need and their provision by government is conditioned on their importance to the well-being of the people and their commerce.

On these grounds, it is proposed that individual expenditures for educational expenses be excluded from taxable income for the purpose of determining the federal income tax. All direct educational expenditures should be acceptable deductions from taxable income according to these specifications: (1) Expenditures paid directly to the university or college; (2) accounted for in an expenditure schedule, limited to the college or university, formally announced cost schedule; (3) including allowance for necessary travel to and from home; (4) available irrespective of age of the recipient of the benefits of the expenditure; and (5) available to whoever makes the payment, the student for himself, parent, relative, or other benefactor.

The key advantage of such a tax policy would be to define conditions of parental support independently of the age of majority, yet it would remain voluntary on the part of both parent and the student. Also, the incentive for parents to provide such support would increase with income, due to the progressive feature of income tax rates. This would not be true of the free federal 400, unless the loopholes, of which they take advantage, are enclosed by additional legislation.

The major group which would benefit from these deductions is the middle income group. It would constitute some relief for them from the major tax burden they currently carry and at the same time, make it possible for those middle income parents who wish to do so to provide for education of their youngsters. Finally, the proposed tax benefits would be equal for both private and public institutions and it would eliminate the somewhat dubious distinctions between the contributions and payment of expenses by parents to private institutions.

Students who do not enjoy the support of parents or benefactors should be provided grants to cover the educational expenses in order that opportunities for higher education would be available to all regardless of the availability of personal resources. It should be recognized that a considerable contribution of students would still be made through income foregone during the period of the higher educational career.

APPENDIX V

PROPOSED WISCONSIN HIGHER EDUCATION PLAN

Developed as a less expensive yet more comprehensive alternative to the proposed HEAB State Guaranteed Education Plan, the proposed Wisconsin Higher Education Plan (WHEP) is designed to provide equal access for Wisconsin citizens to a post-secondary education. WHEP maximizes financial opportunities which currently exist by neatly complementing available federal resources with a minimum contribution from the state.

The specific objectives of WHEP are fivefold: (1) to provide direct relief in higher education costs to the middle income taxpayer; (2) to reduce potential student indebtedness through reduced costs (especially in the initial two years where high attrition prevails); (3) to avoid any legal conflict with Wisconsin's 18-year-old age-of-majority law; (4) to meet the special needs of minority and disadvantaged students; and (5) to provide for efficient utilization of tax dollars, cognizant of the increased competition for these limited resources.

The WHEP calls for the adoption of a comprehensive four part approach to aid Wisconsin resident students with the financing of their post-secondary education. It is recommended:

1. That resident students at the Freshman and Sophomore levels not be charged a fee for support of instructional costs.
2. That a state guaranteed loan program be implemented to provide all students with an assured market for educational loans. Loan notes would be warehoused through secondary marketing to reduce the amount of state resources needed to capitalize the program.
3. That grant assistance be available to minority and disadvantaged students through continuance of current state programs which serve this purpose.
4. That student work assistance funds be made available for student employment and funded at the institutional level based upon a capitation formula.

A provision is built into the plan which accommodates the student who previously could not be assisted due to problems in demonstrating financial independence. Another feature provides relief beyond the usual ten-year loan repayment period for students experiencing hardship circumstances. Multiple borrowing is prohibited by insuring that no student be subject to more than the minimum repayment of the combined outstanding principal.

The total cost of the plan over a seven year period of $520,063,137. This figure is relatively small when compared with the cost estimates of $2,297,084,023 which are projected for the HEAB Wisconsin Guaranteed Higher Education Plan. Adoption of the WHEP proposed herein would represent a cost saving alternative for the state of over $1.7 billion while reducing potential student indebtedness by close to $300 million.

With respect to its origin, a special significance is attached to this proposed WHEP plan as it was inspired by the HEAB proposal and became a joint effort by students, faculty, and administrators.

If initial reactions are a prelude to its overall acceptance, it may be worthy of implementation.

PROPOSED WISCONSIN HIGHER EDUCATION PLAN (WHEP)

This proposed Wisconsin Higher Education Plan is a student post-secondary financial aid plan that embodies the principle that all state citizens, regardless of the individual's financial position, will have an opportunity to a post-secondary education. This comprehensive financial plan is designed to complement federal resources with state resources in an approach to maximize financial opportunities to students with a minimum state contribution.

Specific objectives of (WHEP) are:

1. To give direct relief to the middle class taxpayer who is being overtaxed and unable to meet the cost of higher education.
2. To reduce potential student indebtedness through reduced student costs.
3. To reduce indebtedness to the freshmen and sophomore students who are more vulnerable to failure in pursuit of post-secondary education programs.
4. To avoid conflict with the legal implications of the state's 18-year-old age-of-majority.
5. To be realistic to the fact of increased competition for state tax dollars for diverse needs.
6. To meet the special needs of minority and disadvantaged students.

WISCONSIN HIGHER EDUCATION PLAN

It is proposed that the state concentrate its commitment to student financial aid through four programs:

1. Free Tuition for freshmen and Sophomores;
2. Guaranteed State Loans;
3. Grants to Minority and Disadvantaged; and
4. Student Work-Study Aid.

FREE FEE/TUITION FOR FRESHMEN AND SOPHOMORES

Earnest L. Boyer, Commissioner on the National Commission on Financing Post-Secondary Education, a 1.5 million dollar national study completed December 1973, said, ". . . State and local support should be sufficient to make it possible for public institutions to provide two years of post-secondary education to all qualified students at no cost to the student. . . ."

Though the fee charge to students attending the WSU System campuses represents only about 28% of the students' total educational costs, evidence suggests (the UW Center System Schools experiment of reduced fee charge) that reduced fees literally opens the doors of an educational oportunity to many students who would not have attended had there been a full fee charge. Further, the virtual elimination of students' fee charges for instructional cost would be consistent with current practices of the Vocational, Technical, and Adult Education System. With adoptions of this policy, prospective students could select public institutions of higher education based upon their freedom of choice rather than differing cost factors.

Currently, the middle-income taxpayer is for the most part paying a disproportional share for government programs, but is seldom eligible as a benefactor. The abolition of student fee charges would give direct relief to the middle-income taxpayer whose dependent is enrolled in post-secondary education. Accordingly, that family's contribution to the cost of higher education would be reduced equal in an amount to the abolished fee amount charge. Similarly, the student who must borrow would have reduced potential indebtedness.

THE FOLLOWING SCHEDULES IDENTIFY THE COST FOR ELIMINATING FEE CHAGRES TO STUDENTS PER CLASSIFICATION AND GROUP CLUSTER

Terms: The classification refers to the student's class, e.g., *Freshman, Sophomore, Junior, Senior,* and *Graduate.*

The Group Cluster refers to the three clusters: (1) Center System, (2) University Campuses, (3) Doctoral Campuses. The UW-System refers to all three clusters

Costs are estimated costs based upon enrolled resident students for the 1973–74 year: (All cost estimates are increased by 8% per annum per cost inflation estimated. See Appendix A, Table 2.)

1. Freshman—University campuses and center system:	
First year of biennium	$8, 802, 766
Second year of biennium	9, 506, 987
Total biennial cost	18, 309, 753
2. Freshman—UW-system:	
First year of biennium	13, 176, 000
Second year of biennium	14, 230, 080
Total biennial cost	27, 406, 080
3. Freshman and sophomore—University campuses and center system:	
First year of biennium	8, 802, 766
Second year of biennium*	14, 455, 429
Total biennial cost	23, 258, 195
4. Freshman and Sophomore—UW-system:	
First year of biennium	13, 176, 000
Second year of biennium	23, 524, 000
Total biennial cost	36, 700, 000

*Second year of biennium requires funding for both freshman and sophomore levels. This is when the program becomes fully funded.

MINORITY AND DISADVANTAGED STUDENT AID

It is recognized that grant assistance is needed to assure a special opportunity for minority and disadvantaged type students. The Wisconsin Talent Incentive Grant Program and the Native American Grant Programs can be funded on an equal matching basis by the federal government through State Incentive Grants and Bureau of Indian Affairs Grants. The fiscal impact upon the state to continue these programs is very minimal, and these are worthy student aid programs. Accordingly, it is recommended that these programs continue.

STUDENT WORK-STUDY AID

Studies have indicated that many students though qualified to work are unable to obtain part-time employment. Perhaps the greatest detriments to student employment is students' commitment to an academic time schedule and lack of mobility.

The state could provide an optional student work plan to include one or a combination of the following:

1. Increasing the state's matching share to the existing federal Work-Study Program.
2. Fund the institutions with work assistance funds based upon some equitable formula with or without need as a criterion.
3. Develop a state student work-study program with or without need as a criterion.

Perhaps Items 1 or 2 would seem most logical as it would not create a need for an additional bureaucracy requiring additional reporting systems.

THE LOAN PROGRAM

State legislation could provide for the creation of the state as a lender under the federal Guaranteed Student Loan Program. The state would assume similar lending authority and benefits as any other commercial lending institution that currently participates as a lender under the federal Guaranteed Student Loan Program.

THE LOAN PROGRAM (LENDER'S PROVISIONS)

1. The program already exists under federal law with funding available to participants.
2. The state would be required to capitalize the loan program. (e.g., from the State Investment Board, bonding, etc.)

3. Secondary marketing of loan notes, i.e., the authority of the state to warehouse student loan notes to "Sallie Mae," a profit corporation that provides cash for loan notes, up to 80% of the face value would:

(*a*) Make available a source for recapitalizing the loan program without significantly reducing the corpus of the loan account. Thus more dollars would be available for more students

(*b*) Reduce the amount of state resources needed to capitalize the program.

4. The principal amount lent to students would be guaranteed repaid to the lender by the federal government. Insurance is purchased by the student and discounted from the borrowed amount. The guaranteed provision assures the lender of reclaiming the principal amount borrowed in cases of default, death, or permanent disability.

5. The federal government would pay to the lender interest on behalf of the student while the student was enrolled with a credit work load of one-half time or greater. Interest subsidy would continue up to 9 months after graduation or departure from the institution. After the 9-month grace period, the student would repay the loan amount so that the debt would be repaid within ten years and nine months. The rate of interest paid by the student during the repayment period would be fixed at 7% per annum. The lender would receive the fair market value of interest, in this case the state, for guaranteed loans. Currently, the federal government is paying about 9% to lenders while the student is in school and about 2% to the lender during the student's repayment period.

THE LOAN PROGRAM (BORROWERS' PROVISIONS)

1. The maximum loan amount is the lesser amount of $2,500 per year or the cost of attending the school less other financial aid awarded. The maximum accrued indebtedness cannot exceed $10,000.

2. A student would be eligible to receive a loan amount providing the student was enrolled for a minimum credit hour work load of one-half time. Currently, students who attend post-secondary public, private, and preparatory schools are eligible recipients of GSL.

Three major classifications of eligibility per Office of Education criteria are:

(*a*) *The Emancipated Student.*—Students whose parents do not claim the student as a tax exemption, contribute to their financial support, or provide living quarters at the parents' residence are emancipated students. In such cases, the students would be eligible to borrow up to the maximum loan amount. The student would also be eligible for interest subsidy if the student could:

1. Establish need based upon a "needs test," or

2. Declare the following statement, "I cannot meet the expected contribution from my income."

(*b*) *The Dependent Student.*—Students whose parents either claimed the student as a tax dependent, provided $600 in support to the student or provided living quarters at the parents' residence are termed dependent students. In such cases, the parents will be required to complete a "needs test" form that will identify the amount of funds the parents should contribute to their dependent student's education.

If the loan amount requested is a sum not greater than the difference between the cost to attend the school and what the family should contribute, (e.g., loan request was $500, the school cost was $2,000, the family contribution was $1,500), such loan requests would be granted.

If the student is denied a loan amount for failure to meet the parents' financial "needs test," the Office of Education has incorporated a de jure provision that the parents merely indicate that they cannot meet the expected contribution from their income. Upon receipt of this statement, the student becomes eligible for a maximum loan amount. In effect this provision lends de facto emancipation between student and parent for the purpose of a guaranteed loan.

The student would also be eligible for interest subsidy if the parents' taxable income were $15,000 or less. For a family of four (two children) the parents' taxable income could be no greater than about $20,000.

3. Students are required to purchase insurance on the principal amount borrowed. The insurance premium is about one-half of 1% per annum and is deducted from the loan amount. The insurance insures the principal amount loaned to the lender in cases of default, death, or permanent disability.

OPTIONAL PROVISIONS TO LOAN PROGRAM

1. At the discretion of the state, payment could be deferred to borrowers whose financial position would warrant a hardship deferment of up to three years. Such a provision would require the state to pay interest amounts to the borrower's account during financial exigence. When reasonable, the borower would begin to repay the principal amount and interest per normal repayment schedule without penalty. The state could always recover the principal amount at anytime through the option of the guaranteed provision.

2. The state could serve as an agent of record to students who were multiple guaranteed student loan borrowers. This could be implemented by either:

(*a*) The state could encourage commercial lenders, preferably the lender who lent the greatest sum to a student, to purchase all other GSL loan notes an individual student might have in obligation.

(*b*) The state could purchase the notes when the student has been obligated to more than one GSL borrower. Accordingly, the state would then consolidate these loan notes into a single lender's note and warehouse the notes to "Sallie Mae," the secondary market for recapitalization.

3. As a GSL lender, the state should prohibit future GSL multiple borrowings by making available loans to students whose previous lender denied an eligible student a loan. In such cases, the state would purchase the outstanding notes and consolidate the notes under the state guaranteed loan program.

CONCERNS

The structure for the state to become a Guaranteed Student Loan lender already exists. However, the following cautions must be considered:

1. The possibility that the federal government might abandon the GSL program or significantly modify the program by eliminating the financial incentives for the state to become a lender;

2. The availability of "Sallie Mae," the secondary market warehouse for loan notes, to meet the lender's demand for dollars recapitalizing the lender's account;

3. Negotiation with the Office of Education to permit the state to consolidate outstanding multiple loan obligations; and

4. The restriction of a maximum loan amount of $2,500 per year to an accrued amount of $10,000 might be an insufficient amount to meet some student's financial needs.

RECOMMENDATIONS

That the state of Wisconsin adopt a pluralistic "Quadpartite" approach to aid resident students with financing their postsecondary education to include:

1. That resident students not be charged a fee for support of instructional costs at the Freshman and Sophomore levels (currently, this charge is about 25% of the total educational support charge).

2. That a state guaranteed loan program be implemented to provide all students with an assured market to borrow money for educational expenses.

3. That grant assistance be available to minority and disadvantaged students.

4. That student work-study assistance be made available for student employment and funded at the institutional level based upon a capitation formula.

SUMMARY STATEMENT

In summary, the proposed Wisconsin Higher Education Plan would be supplementary and complementary to federal aid made available to students via the institutions. Currently, federal assistance to state students in the form of work-study, loans, and grants is about $45 million per annum.

Further, the program would eliminate fee charges to Freshmen and Sophomore students, provide a readily available loan program for all students, special grant assistance for minority students, and a student work-study program.

This "Quadpartite" design should enable all state citizens an opportunity to a higher education without unrealistic indebtedness or extreme financial sacrifice.

Finally, the designed plan is estimated to cost the state about $157,820,886 less, over the same seven-year period, than the proposed Wisconsin Guaranteed Higher Education Plan favored by the Higher Educational Aids Board Staff.[1]

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[1] See app. C.

SEVEN-YEAR COST OF THE WISCONSIN HIGHER EDUCATIONAL PLAN

The comparative costs are estimated upon current federal law and the extent the federal law will permit a shared roll. Modifications to approximate estimated cost would require amendments to existing federal laws.

APPENDIX A

TABLE 1.—ESTIMATED COST OF WHEP PROPOSED LOAN PROGRAM

Year	Bonding, etc., other than State GPR	State GPR	Identification
1974-75	$20, 000, 000	$0	Estimated principal loan amount needed. All interest would be paid by the Federal Government while student attended school, thereafter student pays interest.
1975-76	25, 000, 000	0	
1976-77	30, 000, 000	0	
1977-78	45, 000, 000	0	
1978-79	35, 000, 000	0	
1979-80	30, 000, 000	0	
1980-81	25, 000, 000	0	
Subtotal	210, 000, 000	0	
	Other than State GPR	Hardship interest State GPR	
1974-75	$0	$72, 000	Interest forgiven for hardship. Estimated 4 percent of interest cost as reserve for hardship cases. The hardship interest forgiveness is an optional provision and not essential to the proposed State guaranteed loan program.
1975-76	0	90, 000	
1976-77	0	108, 000	
1977-78	0	162, 000	
1978-79	0	162, 000	
1979-80	0	162, 000	
1980-81	0	162, 000	
Subtotal	0	918, 000	
Estimated total loan program cost	210, 000, 000	918, 000	

Note: Of the total loan program cost of $210,918,000, only $918,000 would be expended as State general purpose revenue.

TABLE 2.—WHEP PROPOSED COST TO ABOLISH FEE CHARGES TO FRESHMEN AND SOPHOMORES IN PUBLIC HIGHER EDUCATION

Year	Cost GPR	
1974-75	$13, 176, 000	Estimated cost of general purpose revenue to fund the proposed program. Increases cost at 8 percent per annum and assumes a constant enrollment.
1975-76	36, 700, 000	
1976-77	39, 636, 000	
1977-78	42, 806, 880	
1978-79	46, 231, 430	
1979-80	49, 929, 944	
1980-81	53, 924, 339	
Estimated 7-year cost	282, 404, 593	

TABLE 3.—WHEP PROPOSED COST FOR MINORITY-DISADVANTAGED PROGRAM

Year	Cost GRP	
1974-75	$1, 685, 000	Estimated cost of continuing Native American, minority, disadvantaged program. Cost estimated projected to increase 6 percent per annum.
1975-76	1, 786, 100	
1976-77	1, 893, 266	
1977-78	2, 006, 861	
1978-79	2, 127, 272	
1979-80	2, 254, 908	
1970-81	2, 390, 202	
Estimated 7-year cost	14, 143, 609	

TABLE 4.—WHEP PROPOSED WORK-STUDY PROGRAM FOR STUDENTS

Year	Cost GPR	
1974-75	$1,500,000	Estimated cost for a minimal work-study fund for students.
1975-76	1,590,000	
1976-77	1,685,400	
1977-78	1,786,524	
1978-79	1,893,715	
1979-80	2,010,338	
1980-81	2,130,958	
Estimated 7-year cost	12,596,935	

APPENDIX B

TABLE 1.—ESTIMATED INTEREST COST FOR THE HIGHER EDUCATIONAL AIDS BOARD PROPOSED LOAN PROGRAM [1]

Year	Other than State GPR	State GPR
1974-75	$131,200,000	$1,180,800
1975-76	163,200,000	2,649,600
1976-77	203,500,000	4,481,100
1977-78	245,800,000	6,693,300
1978-79	293,100,000	9,331,200
1979-80	343,200,000	12,420,000
1980-81	439,200,000	16,372,800
Total interest cost	1,819,200,000	53,128,800

[1] Identification—Estimated cost of interest from borrowed principal amount computed at 9 percent per annum.

TABLE 2.—ESTIMATED COST FOR THE HIGHER EDUCATIONAL AIDS BOARD PROPOSED PRINCIPAL AND INTEREST FORGIVEN FOR DEATH, DISABILITY, UNDEREMPLOYED, AND UNEMPLOYED PROGRAM [1]

Year	Other than State GPR	State GPR
1974-55	0	$26,476,160
1975-76	0	33,169,920
1976-77	0	41,596,220
1977-78	0	50,498,660
1978-79	0	60,486,240
1979-80	0	71,124,000
1980-81	0	91,114,560

[1] Identification—Estimated that 26 percent of borrowers will be eligible for principal and/or interest benefits.

Note.—The total loan program combined costs of GPR and other costs is estimated to be about $2,250,000,000.

TABLE 3.—ESTIMATED COST FOR THE HIGHER EDUCATIONAL AIDS BOARD PROPOSED ENTITLEMENT GRANT TO RESIDENT STUDENTS ATTENDING PRIVATE INSTITUTIONS OF HIGHER EDUCATION PROGRAM

Year	GPR	
1974-75	$4,800,000	Estimated current level of funding and increasing level of funding at 6 percent per annum.
1975-76	5,088,000	
1976-77	5,393,280	
1977-78	5,716,877	
1978-79	6,059,840	
1979-80	6,423,430	
1980-81	6,808,836	
Estimated 7-year cost	40,290,263	

APPENDIX C

SUMMARY OF COMPARED ESTIMATED COST BETWEEN THE PROPOSED WISCONSIN HIGHER EDUCATION PLAN TO THE PROPOSED ALTERNATIVE HEAB WISCONSIN GUARANTEED HIGHER EDUCATION PLAN

Year and program	Other than GPR	State GPR
WHEP:		
1974-75—WSGL (loans)	$210,000,000	$918,000
1974-81—Abolition of fees for freshmen, sophomores, UW-system	0	282,404,593
1974-81—Minority, disadvantaged students	0	14,143,609
1974-81—Student work-study program	0	12,596,935
Estimated 7-year cost	210,000,000	310,063,137
Total estimated plan cost	520,063,137	
(HEAB) WGHEP:		
1974-81—Income contingency loan	1,829,200,000	427,594,560
1974-81—Tuition grant to students attending private schools	0	40,290,263
Estimated 7-year cost	1,829,200,000	467,884,023
Total estimated plan cost	2,297,084,023	

APPENDIX D

Section II—Financial aid awarded and other resources.—List only financial aid and other resources that are firm commitments and which apply to the period of the loan. Do not include assistance which may have been applied for, but not yet approved. Included should be all grants, scholarships, educational loans, and school-awarded jobs, including assistance under all federally sponsored programs of student financial aid. Do not include resources that are being considered in the determination of support from the family.

Section III—Support from family—Subpart A.—The same persons whose income was utilized in the determination of the Adjusted Family Income must be considered in the determination of the amount of family support available to help pay educational costs. This information may be obtained from Part A of this form as follows. If the student answers "yes" to the first question, he is considered to be a dependent student and the income and assets of the parents are to be considered. If he answers "no", he is an independent student and the income and assets of the parents are not taken into account. If the student is married and he answers "no" to the second question, the income and assets of the spouse are to be considered. If the answer is "yes", the spouse's income and assets are not taken into account. Indicate both the amount of the computed support from the family and the method of needs analysis used in making this determination. This amount should relate to the period of the loan. Methods approved by the Commissioner of Education for other federally supported financial aid programs are acceptable as well as the Alternate Income system, the American College Testing Program system, the College Scholarship Service system, the Income Tax system or any other method if it produces results which are, on the whole, similar to those which would be produced under the methods listed above. A needs analysis method promulgated by the Commissioner for independent students (as defined above) may alternatively be used for such students as may any other method which produces results which are, on the whole, similar to those which would be produced under any method which has been so promulgated.

Section III—Support from family—Subpart B.—The amount listed in Section IIIA is more meaningful when audjustments for the individual circumstances of the student are considered. The Financial Aid Officer is expected to exercise his professional judgment in each case and indicate in Section IIIB the amount that can be realistically expected to be contributed for educational costs over the period of the loan. He should take into account geographic differences in cost of living, actual summer earnings, family circumstances, and other facts not always equitably treated in a nationwide standardized computation. Indicate in the space provided the follow code(s) for the reasons used in reducing the amount of the computed family support: (1) Reduction in income, (2) death or disability of wage earner, (3) loss of job, (4) unanticipated medical or other extraordinary expenses, (5) non-liquid assets (e.g. home equity), (6) cannot meet expected contribution from income, (7) other. If code

"(7) other" is used, briefly indicate in the space provided the basis for this reason. If necessary, provide this information on a separate page, copies of which should be attached both to the lender and guarantor copy of the forms.

Section IV—School recommendation.—Enter the amount in Section IV according to the instruction stated. In other words subtract available resources (Section II and IIIB) from the Costs of Education (Section I). If a negative figure results, enter "O".

Signature of authorized school official.—By signing this form, the educational institution is certifying that the student is enrolled and in good standing or has been accepted for enrollment. Good standing is determined by the institution. If the student is not in good standing, the form should not be completed or signed by the school official.

PART C (TO BE COMPLETED BY THE LENDING INSTITUTION IF THE STUDENT IS APPLYING FOR FEDERAL INTEREST BENEFITS)

The lender must complete all items in Part C. Lenders making federally insured loans should receive two copies of this form from the borrower. The lender must retain the original copy. The other copy should be attached to the yellow copy of the OE 1154 and mailed to the regional office of the Office of Education for the insurance commitment. Lenders making loans under State or private guarantee agency programs should follow procedures established by the agency.

In all cases, the lender should indicate the amount the school recommends, the amount the lender approves and (according to the standards set forth above) whether or not the loan qualifies for Federal interest benefits.

If the amount of the loan is equal to or less than the amount recommended by the school in Section IV of Part B, the entire amount qualifies for Federal interest benefits. If the amount of the loan exceeds the school recommendation, the entire amount will qualify for Federal interest benefits provided the lender indicates in his records the basis for exceeding the school's recommendation (and, if the student's adjusted family income is $15,000 or greater, the lender's records also indicate that he has contacted the school). However, if the loan amount exceeds the school's recommendation, and the lender has no basis for exceeding this recommendation, only the amount recommended by the school would qualify for the interest benefits. In such cases, indicate on the form the amount that qualifies and the amount that does not qualify for the Federal interest benefits.

An authorized official of the lender must sign the form, indicating his title and telephone number and the date in the spaces provided. If there is no school recommendation, Part B and C need not be completed as the student cannot qualify for Federal interest benefits.

Mr. SATHER. Good morning, Mr. Chairman and members of the committee. It is my pleasure and I thank you for the opportunity to testify. I delivered some 30 copies of my prepared text to the committee sometime earlier this morning.

For the record my name is Robert D. Sather and I am on the faculty and also director of student financial aid at the University of Wisconsin, Eau Claire. I am also the principal author of the proposed Wisconsin higher education plan. It perhaps can be identified under the acronym WHEP. This plan was devised as a model for the State of Wisconsin, but not necessarily should be restricted to the State of Wisconsin.

It might similarly satisfy the needs of other States as well, but we feel it certainly will meet the needs of Wisconsin. The authorship resulted from many requests on the part of students, faculty, labor, leaders, business persons, and State legislators as to the confusion as identified by earlier testimony of the problems associated with student financial aid throughout the State of Wisconsin.

Now I submit, however, probably the most precipitating motive for writing this education plan came as a counterproposal to a State agency plan for an income contingency plan for the State of Wisconsin. I must also submit, in my opinion, and I would be happy to submit to this committee documentation, newsclippings, to the effect that such a program met with great disfavor and negative reaction throughout the State of Wisconsin.

I further suggest that if this committee wishes a front page news article, it might entertain the idea of perhaps authorizing a national income contingency loan program and it would certainly get publicity. I say that facetiously. The preliminary reaction to the plan I submit before this committee has had welcome commentary up to this point and I also welcome further commentary from any groups of people who would wish to do so.

For the sake of brevity I will skip the historical, philosophical, sophistical rationale of the program because it is all-included. I feel, within the document presented to this committee.

The plan itself addresses itself to these specific objectives:

No. 1, to give direct relief to the middle-income taxpayer who is becoming less and less able to finance higher education.

No. 2, to reduce the student potential indebtedness, particularly at the freshman and sophomore years when the objective of obtaining these higher education goals appears to be most vulnerable to the student.

No. 3, to avoid any conflict with the implications of the legal age of majority, which is 18 in the State of Wisconsin.

The fourth objective is to meet these special needs of minority disadvantaged students.

The plan involves a quadpartite effort or four basic programs. The first program is that of permitting free tuition or the abolition of tuition for resident students at the freshman and sophomore levels at all public institutions of higher education in the State of Wisconsin.

Now, on the surface this may seem like an unrealistic goal, but as we look at the total budget of higher education for the State of Wisconsin, we can see it represents only a small fraction of increase in the commitment of State dollars, something like 5 percent to accomplish this fact. We feel that the single most important factor which literally opens the door to middle-income class students and low-income class students is low-cost tuition or no tuition at all.

A pragmatic experiment in the State of Wisconsin from the University of Wisconsin's Center System during this current year indicated strong evidence of this. The State abolished tuition charges; that is, a charge for instructional cost for the resident students at the freshman and sophomore levels and the doors opened and literally swallowed the increased enrollment for students who indicated by follow-on reports that perhaps they would not have attended school had there been a normal tuition charge.

Further, I submit that these same students came from primarily middle-income and low-income families. So might I reiterate that it is the opinion of the authorship and the study committee that the single most important factor of enabling students to attend college is low-cost tuition.

Further, it is the feeling that the free tuition would also offer the middle-income taxpayer some incentive for paying a disproportionate share of his tax dollars for Federal programs by which he often or seldom receives anything as a benefactor.

Again, you want to remember by reducing the tuition charge we have also reduced the total budget cost of attending school. By reducing the budget cost, we are then also reducing the supplementary other costs that the student must pay which I will submit to be about 75 percent for the students who must live on campus, so that the indebtedness in working systems on the part of the students would become less and less.

Further, the fiscal cost for such a program for the State of Wisconsin for a single living period while abolishing fees and tuition would be approximately $23.5 million. This could be contrasted with what economists have designed as providing a full income contingency loan program, with all of its possible incentives, of $60 million or twice as much for the State of Wisconsin over the same period of time.

The second part of the program would establish the State of Wisconsin in the guaranteed loan program as a State lender. It is submitted that every student would be eligible for a State-guaranteed student loan and the State itself would become the benefactor with all of the incentives that any commercial lender receives currently under the guaranteed student loan program. It is suggested that the State capitalize the program through selling bonds. In some instances the State should be able to sell these bonds at a lower rate of interest than the actual current rate of interest by which they would receive subsidies from the Federal Government.

I am not suggesting that the States could make money on the program because of the 1971 tax reform law prohibiting arbitraging through government programs, which you are familiar with. But the State as an operational program would not lose any money. They would not lose any money in that the loan notes that the State would have students sign would be guarantee by the students through insurance which the students pay 1 percent of the principal amount borrowed. Thus, every loan note in itself would be guaranteed.

So the corpus or principal amount of the money that the State invests into the program would be completely unbrellaed by protection. Similarly, the interest rate the State would have to pay for the bonds would be repaid from Federal interest subsidies that it receives from the Federal Government.

Accordingly, the reduction of the bond amount would be paid as loan notes become due and capital was received and bonds would be retired. I realize this is an oversimplification, but it is being worked out under the existing guaranteed student loan structure.

Further, the State would not need programs to borrow as much money as one would anticipate in that they could have a secondary market or warehouse of the loan notes that it does have with Sallie Mae and hopefully that program will be fully funded so that we provide a capitalization for student loan notes.

I also envision that probably perhaps the State of Wisconsin would also place in its program a provision by which it can buy up loan notes from banks and banks might either, commercial lenders, as they need further capital, to consolidate these loan notes, so the student would perhaps have a single lender to repay versus multiple lenders upon graduation.

I could envision a program such that at times a commercial lender might even, or certain periods when there would be no profit motives, loan the money from the State agency who sold the bonds to loan students if the student had an account there to retain a single account.

This is starting to get a little more complex, but there are many alternatives to a State loan program which could also be included.

Further, the State might include also hardship costs which would retain fiscal responsibility on the part of the students so we would have a human element in that the State would pay the interest while the student was perhaps suffering under hardships, per se, say after 3 years, which is included in this proposal I have.

The third program under the plan would create and require funding of about $1.7 million so that the State could continue matching Federal funding for State incentive programs, and minority and disadvantaged programs. I feel that these programs are important and they should be retained.

The fourth program under the plan would include a State student work-study program. Oftentimes it is difficult for students to find employment because of their commitment of their time for academic schedule so they don't have flexibility to seek out employment. Also, they are restricted from lack of mobility, but oftentimes we find students really desiring to seek employment and meaningful work to be done, but funds are not available. Therefore, I suggest also in the plan the State appropriate $1.5 million for a State student work-study program funded directly to the institutions on a per capita basis, based upon full-time enrollment and we would decrease the degree of bureaucracy.

In summary, the proposal for the Wisconsin Higher Education program would be supplemental and complementary to Federal aid made available to students via the institution. Currently Federal assistance to State students in the form of work-study, loans and grants is about $45 million per annum. Further, the program would eliminate tuition charges for freshmen and sophomore students, would provide a readily available loan program for all students, special grant assistance for minority students, and a State student work-study program.

This quadpartite design will enable all citizens an opportunity of higher education without unrealistic indebtedness or extreme financial sacrifice.

I thank you for this opportunity, Mr. Chairman, and remain available for questioning.

Mr. O'HARA. Mr. Sather, why don't you just remain seated there and we will invite the others who testified earlier to draw up chairs at the witness table.

Mr. Sather, you said what you had to say about the advantages of free or very low tuition. Of course, it sounded very nice to me. I liked that. As you know, we have corresponded on that subject.

You spoke of an experiment. Was it at the Madison campus?

Mr. SATHER. No. The University of Wisconsin Center School enrolled freshmen and sophomore students and there was the elimination of the instructional cost charge. In other words, there was no tuition. Now, so you don't get a wrong impression, the student had to pay for student activities tickets. These are called incidental segregated fee amount. There was a swell of enrollment at each one of the center schools this year and strong evidence suggests, of course, that this was because of the fact that no tuition was charged. It created quite a bit of controversy within the UW system because the other institutions wondered why these campuses could do this but they could not.

Mr. O'HARA. Let me understand the university system at Wisconsin a little better. You have the Madison campus and then you have the Milwaukee campus and Eau Claire campus?

Mr. SATHER. There are 13 separate campuses.

Mr. O'HARA. These are 4-year institutions?

Mr. SATHER. Yes. Thirteen 4-year institutions.

Mr. O'HARA. Thirteen 4-year institutions within the university system?

Mr. SATHER. Yes.

Mr. O'HARA. Then you have in addition some of these 2-year centers?

Mr. SATHER. Right, for example there are 2-year centers at Rice Lake, Medford, and Fond du Lac and so on.

Mr. O'HARA. Do they resemble community colleges? Do they award associate degrees, 2-year degrees, or what?

Mr. SATHER. Primarily they do not award 2-year degrees. They are, I would suspect, more likely to be identified with a community-type college study in a fundamental sense, but they are part of the University of Wisconsin system under a single board of regents.

Mr. O'HARA. They don't award any 2-year degrees and they don't have vocational programs?

Mr. SATHER. Correct. We have a vocational—adult education system under a separate board in the State of Wisconsin which again does not charge any tuition. My plan would be compatible with the VTA system schools if we would abolish tuition charges the first 2 years.

Mr. O'HARA. You said something about, well, first of all, you said there was a substantial increase in enrollments this year.

Mr. SATHER. At these schools there was an increase in enrollment.

Mr. O'HARA. At these center schools you mean. Then you said the increase was almost entirely among low- and middle-income students?

Mr. SATHER. That is right.

Mr. O'HARA. Are there any studies of the effect of this that you could supply to the committee?

Mr. SATHER. Yes; I would be happy to and there have been studies. I will be happy to supply the committee with them.

Mr. O'HARA. I would be very happy to get them.

Mr. Millard. I think you were the one who suggested that we ought to—well, of course, all of you in a way—but I think you explicitly suggested that we somehow make the State programs complementary to and supplemental, so that they work in one area and the Federal program in a complementary area, that sort of thing.

One of the ways that we could do that is by sort of making it the States' responsibility to make it possible for students to attend institutions of higher education at very low or no cost and then use the Federal dollar to provide work-study funds, grants, or opportunity grant funds, and loan money.

Mr. MILLARD. This would be one possibility. I think, however, there are two or three other things that need to be shown in the picture. Even if it were the case that tuition for the first 2 years was done away with and I am not an advocate of high tuitions, I think you know, in any way, shape or form. Even if it were the case, the need for State programs in complementation of Federal programs in terms of student aid would be still there. It would be there in public and private institutions and I suspect this is there for some students, very much even with no tuition in the public institutions.

The need factor, tuition is only one component in the total need factor.

Mr. O'Hara. Yes; but it is an important component. You are familiar, I know, with the study done on utilization of the GI bill.

Mr. Millard. Yes.

Mr. O'Hara. State by State. And you have seen there the tremendous impact that tuition levels have on the ability of veterans to take advantage of the GI bill.

Mr. Millard. I think you are quite right, sir. I certainly am not in any sense an advocate of high tuition in public institutions. I think it is important to recognize, however, that the question of tuition within the various States is a matter of, not wholly a matter of State determination. In some cases it varies from institution to institution within the same States.

From this standpoint, yes, the need for moving in the direction of lower tuition may make a great deal of sense. At the same time there are pressures within the States and nationally, as you know, working in other directions. From this standpoint it would seem to me that in terms of meeting the needs as they currently exist it would be extraordinarily difficult, let us say, to legislate that there be no tuition at public institutions.

The need is there and I think the important thing is, through the combination, and I would rather view is this way, through the combination where possible of low tuition and through combination of State aid, of Federal aid in its various forms, the needs of the whole can be reasonably approximated.

I think in this case it does require the kind of cooperation between the States and the Federal Government which has not always existed, but I think it is extraordinarily important.

Mr. O'Hara. I would certainly agree with that. I don't mean to suggest that States should only be concerned about tuition levels.

Mr. Millard. This is one pattern of things.

Mr. O'Hara. I don't think it ought to be that narrowly focused. Of course, the States have to concern themselves with other aspects involved as well, but I think that is one aspect of the problem that they must be concerned with, because I feel that the foundation, if we are really going to have access to postsecondary education, the foundation of it has to be availability of a wide variety of educational opportunities at a very low cost; because that is going to be what it takes to get a whole lot of people, especially those beyond the traditional college-going age involved in higher education.

Now, with some people that is not going to be enough. It is going to take more than that to get them involved to give them really quality education. But I think the basic need is the opportunity for a very low-cost education of the kind that seems to suit your needs and that goes into some of the more nontraditional areas, I think, as well.

Mr. Millard. Mr. Chairman, could I add one other thing? In addition to access, of course, there is a question of choice and that to both the State and Federal direct aid because it takes on an additional component that maybe is very important to have.

I would quite agree with you on the desirability of low tuition and access to a multiple type of institution. But I think also in this picture there does have to be included a choice factor which does raise the question of the ability of the private institution in the total picture.

Mr. O'Hara. I would go along with that. It seems to me that the choice thing is important, but it has to be carefully handled. The middle-income students have a choice. They have a choice between attending the local community college and attending Yale, I suppose, except that if he is going to attend Yale, he is going to have to really shell out and hock his future.

Well, I suppose maybe all students ought to have that same kind of choice. In other words, I don't know why we should take a low-income student, for instance, and give him an easier choice than that.

Mr. Millard. It is a question of choice across the board, sir.

Mr. O'Hara. Yes, I think it is. So I think—well, it does not bother me that in terms of choice that the one who chooses to go to Yale is going to have to make greater personal sacrifice. I think there is no reason why it should not be the case, but I think what we have to guarantee is the right of everyone without making the heroic sacrifice to continue their education beyond high school at a public institution.

It seems to me that is the first requirement and then we make funds available if one wants to do more than that.

If I have two auto workers in my district and one of them is employed and one of them is laid off because the auto industry is not doing well at the moment, I don't want to make it easier for the laid-off one to send his son to school than the one who is working, you know. I want to make it sort of equally available to them, not easier for either.

Mr. Huber, any question?

Mr. Huber. Well, I didn't quite buy your statement on Yale.

Mr. O'Hara. Well, I said Yale because of that reason.

Mr. Huber. Factually, you know, Yale has tremendous programs available for low-income people and the alumni fund has been part of it. I have concerns about a trend I see developing in the loan program where students upon graduation and finishing their study are going through bankruptcy to wipe out all obligations on loans. Do you gentlemen have any comment on that subject? Are you familiar with this problem or have you seen it as a problem?

Mr. Johnston. I think our experience has been that it does vary by State and certain States have a greater incidence than others, but we have not seen anything that alarms us.

Mr. Huber. Is it something new that is just beginning to catch on?

Mr. Johnston. I don't think so. I think there has been a lot of publicity about it. You know that the States, individual States, do have a role in refereeing the bankruptcies and some States have more stringent laws than others, so we see a different pattern across the country.

There has been a proposal that no student will be able to discharge his student debt under the bankruptcy law until 5 years after he has completed his educational experience. This has been proposed by the new Bankruptcy Study Committee. I don't know where it will go.

Mr. Huber. Do you agree or favor that?

Mr. Johnston. I do. There is an escape clause in that law which would allow the referees to grant bankruptcy in hardship cases.

Mr. HUBER. We make it more and more difficult for disadvantaged low-income students to get jobs. My distinguished chairman and I would disagree on this. For example, during the minimum wage debate we tried, in the minimum wage bill, to have a youth differential. And I realize there is a cogent argument in there about the education problems. When you talk about creating jobs, I would like to think of the young men in my plants who have come to high income, who have worked their way through school without the responsibility of the Government finding adequate jobs. They found their jobs themselves.

We have had one plant manager for some 25 years and I remember when he started to go to night school to get his chemical engineering degree. I am saying I don't want to make it too easy to get an education. I think there should be help available. I am not talking about that. I have a high respect for education, so you ought to have some real push to get it. I realize what the chairman's position is and many people's. I just don't want to see it on a silver platter being handed to anybody who thinks they ought to have an education. I would like to see some incentives, some justification for the taxpayers' dollars, because that is the guy that has to pick up the tab.

I don't know how we go around that. I know we got involved in the problem of the community colleges and I was very active in that back in Michigan, and I know the purpose of that was to make education available to people who had financial problems, particularly those living at home, so they could go to college much cheaper, rather than having to go away to a school with tuition. The taxpayers recognized that community colleges were going to increase their taxes, but, nevertheless, they were going to make an opportunity for education available to many people that otherwise would not have it. I know when we sit down that we have to measure the costs of these programs, and that is a difficult thing. I have not seen any taxpayers in my district who want to see taxes go up; in no way do they want to see them go up. I watch what they are doing in school millages and they are voting down school millages in their own backyard and saying, "We are not going to pay more taxes."

When we become faced with that problem in higher education, they don't have a chance to vote on it because their enlightened representatives decide what is best for them. I am not sure of that in terms of what the people want. I cannot argue with the importance of having an opportunity for anybody who can meet the requirements to get a good education, but these programs are horrendous in their implications and back home this is a government of the people when they turn down millages. They are putting some brakes on spending in education where they have a opportunity to do it.

Somewhere we have to come up with some kind of balances here to convince the people of the best way the dollars should be spread. I realize the best demands. I have seen ways, although maybe the chairman and I would disagree, on impact aid. There is $600 million that possibly could be put into higher education. Impact aid is one of the things we finally requested a general accounting study of after 24 years. We didn't look at the costs of the program, some $400 million. Think how far it would go in some programs, but you can't touch impacted aid because your educators say you are antischool.

There has to be some kind of balance here. We continue to hear much of that. That is my only comment.

Mr. Millard. May I comment for a moment?

It seems to me that one of the things we have been trying to say, at least some of us this morning, does relate very directly to your point. If there are tremendous expenditures on Federal, State, and so on levels in relation to postsecondary education, our concern is that these be spent effectively in relation to each other.

The question of most effective utilization of resources on the various levels is there, too. Our problem is up to this time to a large extent the Federal program and State programs have not been so interdigitated that this takes place. I think whatever resources may be available, I would quite agree with you we can't squander them.

The question is how do you relate them to each other in a most effective way so they reinforce each other and not duplicate each other? I think this is the concern.

Mr. Huber. The implication of elimination of freshmen and sophomore tuitions is horrendous because it is solely a start, you know. And the same argument would hold forth for juniors and seniors and postgraduates. There is no question about that. Maybe it is a step in the normal process and maybe as education changes over the years and the standards are to receive higher education that is coming, but I am only concerned with costs.

Mr. Millard. I agree. I think the question of tuition is related, but a different question. I think in terms of what we were talking about, low tuition may be highly desirable and important, but whether the tuition is low or high, there are continuing needs and these needs do need to be met and from this standpoint it is the interrelation of State, Federal, and institutional programs or the lack of interrelationship in the past, I think, that has caused some of the duplication and some of the waste.

What we urge is, however, this be attacked in such a way that the various programs complement each other for the most effective utilization of resources. Low tuition may be extraordinarily important help in that, but I would suggest that, as I think I suggested to the Chairman a few moments ago, that even if there were no tuition, there would still be need.

Mr. Sather. Might I add a point? It seems we just completed a 20-year period in higher education for physical facilities, undergone greater expansion, and enrollment increases were larger than in a single period, but at the same time we had the smallest number of taxpayers proportionately contributing those tax dollars.

Now we are entering a period of leveling off of enrollment. Good physical facilities already exist on most campuses. Very limited, antiquated facilities and programs have to be updated, but real expansion is complete. And we are also entering a period in which we will have more taxpayers in the market to pay the bills, but fewer students proportionately in schools.

The resources contributed from the gross national product are becoming less favorable to higher education.

I think this is something of significance; the per annum contribution to higher education compared to the gross national product. We should examine the whole picture.

Mr. O'Hara. Well, I am afraid I am going to have to work on my friend from Michigan a little bit.

Mr. **Huber**. I thought you had.

Mr. **O'Hara**. I noticed, Mr. Boyd, you make a strong plea for greater flexibility in the State incentive grant program and, likewise, Mr. Johnston suggested—not only suggested greater flexibility, but he also suggested that perhaps the subcommittee ought to consider a State role, some sort of matching role perhaps in some expanded work-study effort.

I am wondering, under the State incentive grant program, is an incentive grant essentially for a grant to students? Why does it have to be limited that way? Why can't the State incentive grant system be targeted to a State financial aid package or why can't the incentive grant program be targeted to a State work-study program or to some other State program—well, in other words, let the State choose whether it wants to match funds for the purpose of work-study or match funds for the purpose of grant or match funds for the purpose of loans?

Mr. **Johnston**. I think that would be the ultimate and most creative way in which the States could have the flexibility to administer the program. Some States may want to use some or all for grants and some other States may want to use a majorty of it for work-study. It is also conceivable that funds could be used for direct loan programs as well within the States. Certainly while our organization has not taken a specific position on that kind of plan, I think it is a logical extension of the flexibility argument and, in fact, the States, I am sure, would be very creative in how they would respond to that type of flexibility.

Mr. **O'Hara**. There was a French finance minister named Colbert, who once said, "The art of taxation relies in so plucking the goose to get the largest amount of feathers with the least amount of hissing." Maybe the art of incentive grants is one of making incentive grants in such a way as to obtain the largest possible matching amounts with the least possible complaints.

At least that is the way I would like to think of anything we do in higher education in terms of Federal-State matching. Maybe work-study matching would be attractive. Maybe we could get by with $1 Federal and $2 or $3 State, or something of that nature. I don't know. Maybe matching for the purpose of bringing down your tuition.

Mr. **Sather**. That is what I was going to say.

Mr. **O'Hara**. Maybe that would be an attractive proposition. I don't know.

Mr. **Sather**. Perhaps 50 percent.

Mr. **Millard**. Mr. Chairman, I think that would be very dangerous. I think the structure within an individual State, the situation in New Hampshire and Vermont is extraordinarily different than in Michigan or Wisconsin. It would seem to me that it would be less than effective. That is not the best way to put it. It would seem to me somewhat dangerous to try to mandate what the tuition in various States should be.

I think the question—well, if, for example, as in the case of New Hampshire, the second part of this is not true, but if, for example, as in the case of New Hampshire the tuition is quite high, higher in New Hampshire, if I remember, than in a good many private institutions in other parts of the country and this is due to some peculiar concerns and situations there—if the tuition is high, but at the same time there were an adequate grant system based on scaled needs, so that the access is made available, this is an ultimate way of doing it, but not necessarily a bad way of doing it in light of the concerns and needs in New Hampshire. I am not sure it must necessarily be the case that in all States the answer is low tuition as such.

Mr. O'Hara. Perhaps it is not. Perhaps in States with well-developed systems of private institutions and not a well-developed system of public institutions, maybe they would want to use money for tuition grants on some things. But let's try another one out on you.

Maybe what we need is a matching system, the Federal matching system that takes into it the extent to which the State is making an effort to support education beyond the heights. Maybe we need, in other words, a flexible matching system, that when the State really starts making an effort, the Federal Government would do likewise. If the State lags behind, so would contributions from the Federal Government. In other words, maybe we need an incentive for the States to reach an acceptable level of support of higher education, however they choose to support it.

Mr. Millard. Mr. Chairman, I think the key there again, you have to be extraordinarily careful or we have to be extraordinarily careful in terms of danger of oversimplification. The total amounts that the States put in in support of higher education are in excess of what the Federal Government is putting in by a great deal.

Mr. O'Hara. Yes. Some States are doing a great deal more than others, aren't they?

Mr. Millard. Yes, they are; and yet there is an important qualification. It is quite true there is a difference depending upon the motive measurement of the amounts some States put in in relation to other States. I don't think you will find a single State legislature in the country though that does not feel it is putting a great deal into higher education.

The question is, What measures do you use and what are the other kinds of demands upon the funds from the States? That is the mixture in a particular State. It will be quite different in New York than in Wyoming.

Now, Wyoming, in terms of the percentage of the total budget that goes to higher education, looks like it is ahead of New York. Yet, when you begin to look at it more carefully in terms of total distribution of State funds, it may not be. All I am urging is caution.

Mr. O'Hara. How about a percentage of State personal income rather than percent of the budget?

Mr. Sather. Gross State product might be a better measure.

Mr. O'Hara. Some measure other than the budget.

Mr. Sather. That is right.

Mr. Millard. I think what I suggest is all of these things need to be looked at, but I think you have to be careful in terms of what measures you use and at least so long as you are working within the context of student assistance, there is in a sense a more or less direct measure. But I think I would just warn against this.

Mr. O'Hara. For instance, I think it is unfair to a State like California, which really does a superior job os supporting free and low-cost public education beyond the high school level. To ask them to say, "Well, your student assistance programs are not so hot," you know, "not as good as Massachusetts." You know what I mean.

Mr. Millard. Quite true.

Mr. O'Hara. You know, I think, if you are going to look at a State effort you have to look at their total effort.

Mr. Millard. Let me go a step further. If you compare California, let's say, with Mississippi, the percentage of the State income in Mississippi—I want to check this before I go forward.

Mr. O'Hara. You are using some old figures which were true when I came to Congress, but I am not sure it is true any more.

Mr. Millard. We will say a State like Wyoming, the percentage of income in relation to total family earnings that goes into higher education may be considerably higher than in a State like California.

Mr. Sather. One more comment. Mr. Chairman, I think it is important to recognize that the Federal Government does provide financial incentives to the States that contribute the least to higher education, particularly through is tripartite program, work-sudy, national direct student loan, and so on, because such States can show a higher gross student need and get more Federal dollars to give to the students in that particular State. States which provide the least financial help to higher education create higher institutional costs. The cumulative sum of these higher costs reflect a greater State need. Thus the States with the greatest need are given more Federal dollars to make up the gross students' needs.

So what exists now is a negative incentive system. One component of Federal contributions should be to grant Federal aid based upon the relative gross State product and student need. Then you will have a more fair and equitable system of distribution of funds.

Mr. O'Hara. Mr. Jursa, maybe you would like to contribute to the Michigan experience.

Mr. Jursa. I would like to say in relation to the last comment to the extent the disincentive exists, it reflects the allocation process rather than a defect in programs themselves. I don't think there is a defect in work-study.

Mr. Sather. No, not the program itself.

Mr. O'Hara. Well, that insistent bell that you have been hearing is telling us that the House now has gone into session.

I thank you very much for having appeared before us. I am sorry we didn't have more time to spend together, but I do appreciate your cooperation in testifying as you did and keeping your remarks brief and giving us a chance to talk with you.

Thank you very much.

[Whereupon, at 11 a.m., the subcommittee recessed, to reconvene at 9:30 a.m., Monday, June 10, 1974.]

STUDENT FINANCIAL ASSISTANCE

(State Programs)

MONDAY, JUNE 10, 1974

House of Representatives,
Special Subcommittee on Education of the
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara and Dellenback.

Staff members present: Jim Harrison, staff director; Elnora Teets, clerk; and Bob Andringa, minority staff director.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Our first witness today will be Mr. T. Edward Hollander, deputy commissioner. Higher and Professional Education of the New York State Department of Education. Commissioner Hollander will talk to us today about New York State's program of assistance to postsecondary education with particular emphasis on the recently enacted tuition assistance plan.

Mr. Hollander, I am also advised you have been more than cooperative in shifting your own appearance to accommodate others and the committee's schedule. We are in your debt before we have even heard what you have had to tell us.

STATEMENT OF T. EDWARD HOLLANDER, DEPUTY COMMISSIONER FOR HIGHER AND PROFESSIONAL EDUCATION, NEW YORK STATE DEPARTMENT OF EDUCATION

Mr. Hollander. Thank you, Mr. Chairman. I hope I will be further in your debt by being brief. I am incapable of a sustained delivery in excess of 10 minutes. I have given a bundle of documents mostly for the record. Let me deal with the first seven or eight pages.

I am here today to speak on behalf of an improved State-Federal partnership in financing students enrolled in postsecondary education. I do so from the perspective of New York State. As you know, with the full support of the Governor and legislative leaders from both parties, New York State has just expanded significantly the State's program of financial aid to students. The program when fully implemented will provide almost $150 million in grants and awards.

I would like to describe the program within the context of the regent's policy of open access to postsecondary education.

The regents, the governing body of the University of the State of New York, believe that open access can best be achieved through the maintenance of a coordinated system of postsecondary education, including private and public institutions, and collegiate, proprietary, and hospital-based programs of study. In our State public and private institutions serve a common public mission, including the enrollment of high proportions of low-income students and students drawn from minority populations. From a student's point of view the major distinguishing characteristics between public and private institutions in New York State is their level of public support and consequently tuition.

The larger State subsidy of public institutions permits them to charge tuition substantially below operating costs. Private institutions, with a relatively small State subsidy, charge much higher tuition roughly covering 70 percent of their operating costs.

The State's new student aid plan is designed to achieve the following objectives:

(*a*) To extend access to postsecondary institutions to all high school graduates, regardless of economic circumstances.

(*b*) To provide all students with the resources necessary to attend postsecondary institutions that best meet their needs, whether the institutions are public, private, or proprietary.

(*c*) To provide all institutions with a reasonable chance to compete on a program and qualitative basis.

(*d*) To design a program in such a way as to complement existing institutional and Federal programs and provide minimum bureaucratic obstacles to student participation.

I must say our new program has yet to meet this last objective. Current Federal programs make it hard to do so.

Briefly stated, the new State program uses an expanded tuition assistance plan, guaranteed student loans and categorical scholarship programs to form a comprehensive system for financing student needs.

The expanded State-Federal partnership for guaranteed loans demonstrates how State and Federal programs can work together effectively. The program is administered by a State agency, uses Federal loan guarantees to implement Federal policy, and extends the scope of the program using State funds to meet special State needs. Thus, Federal and State policy are accommodated in a single program.

Federal loan guarantees are available to all students regardless of economic circumstances. Federal subsidies cover interest costs of loans for students in college who come from families with incomes of $15,000 or less. The State has extended the scope of the program by providing subsidies for four-sevenths of the interest costs for students from families with incomes of $30,000 or less who are ineligible for Federal subsidies. This subsidy applies only to students while they are in full-time attendance and for 9 months thereafter. The extended loan program makes sense for New York State. The basic Federal program using a State agency for administration made it possible.

We would like to establish the same State-Federal partnership arrangement for student grants, but we find that impossible because of restrictions governing the Federal basic education opportunity program. Before turning to that issue, let me describe the new tuition assistance plan.

Under the plan a New York State resident attending an approved program of study at a New York university, college, proprietary school, or hospital may receive a basic entitlement grant up to $1,500 a year. The exact amount of the grant depends upon the student's economic circumstances and the tuition level of the college he attends. The maximum award at any institution is the lesser of tuition or $1,500. The maximum award is available to students in the lowest income category. The award is reduced as income rises. Students in their first 2 years of college receive a slightly higher award.

In New York we use net taxable balance as a measure of economic circumstances. Net taxable balance is taxable income for income tax purposes increased for such excludable income as tax-free interest on securities and depletion allowances and reduced to take into account the number of persons in a family attending a postsecondary institution full time.

The following examples of student aid illustrate the grant levels at several types of institutions. In addition to net taxable balance, the table shows the roughly equivalent gross income for a family of four with one member attending a postsecondary institution.

TABLE 1

Net taxable balance	Approximate gross income	Award levels for freshmen and sophomores	
		Private college [1]	State University unit [2]
$2,000	$6,500	$1,500	$650
$4,000	8,500	1,380	530
$8,000	13,000	1,110	260
$12,000	17,000	770	[3] 100
$20,000	25,000	[3] 100	[3] 100

[1] Private college tuition of $1,500 or more.
[2] State University tuition of $650.
[3] Minimum award level for net taxable balance of $20,000 or less.

Mr. HOLLANDER. Could I direct your attention to table 1. You will notice the student with income as low as $6,500 can receive a $1,500 State award at a private institution and receives a $650 State award at the State University, which is the full tuition at the State University unit. As income increases, the award level goes down, but goes down from that basic maximum entitlement so there is always a differential between the award for a student at the high-tution institution and the student attending a low-tuition institution.

So one of the objectives of the program is also to equalize tuition among institutions at least to the student. In addition, students may compete for flat grant awards of $250 annually under regents' college and nursing scholarships that are available to roughly the top 8 percent of the high school graduating class. Students who are educationally and economically disadvantaged are eligible for additional categorical State student aid.

The new expanded tuition assistance plan will be phased in one class at a time beginning with freshmen in the fall of 1974.

During the next academic year a New York State freshman from a low-income family will be eligible for a combined Federal-State grant of $2,550 in public funds. This amount may be increased to $2,800 if he is also a regents scholar, or more if he is admitted through a State-sponsored higher education opportunity program.

Additional funds are available to students from institutional grants—about $60 million are available directly from over 200 New York State institutions—Federal direct loans, Federal work-study funds, Federal supplementary opportunity grants and such special Federal and State programs as aid to dependent children, social security, veterans benefits, child of deceased veterans awards, and so on.

Assuming the full funding of the BEOG, we are approaching the time when adequate funds will be available, but the student seeking adequate financing faces confusion because the Federal and State student aid programs each continue their own eligibility, application, and administrative procedures.

Appendix A lists the documents a typical student must complete in order to apply for a financial aid package. You will find that five separate applications are typically required of a student.

We considered a single State-Federal partnership for student aid as one alternative as New York developed its expanded program, but Federal limitations on the BEOG program made this approach impossible.

We then surveyed 5,000 low- and middle-income students to determine if we could structure the State program around Federal criteria for measuring economic need. A summary of the results of the study is attached as appendix B.

Let me state the reasons why we could not accept Federal criteria:

1. The Federal program was relatively limited in impact. Less than 2-percent of college-going costs were covered by BEOG and the campus-based grant programs, and when fully implemented, the BEOG program might cover only 3 percent of costs. More funds are available to finance students through programs funded under the Veterans' Administration and the Social Security Administration than under Federal campus-based and BEOG programs. While Federal student aid is helpful, it is a relatively small effort in comparison to State and institutional efforts.

2. Uncertainty in Federal funding levels limited the usefulness of the program. Students could not count on a level of grants with reasonable certainty.

3. The Federal needs tests were found to be complex, inequitable, and confusing.

4. The Federal criterion with respect to asset level was imprecise and difficult to verify, introducing further inequity and uncertainty into the process.

5. By contrast, we found net taxable balance, which is our method for measuring need, to be a reasonably valid measure of economic need. Most important, the system is easily understood and permits students and parents to predict award amounts. It also is easy to complete the application and simple to verify the information provided.

Our study also showed that if we shifted to Federal criteria for measurement of economic circumstances, we would be taxing the value of home equity of the rural poor, aid to dependent children under the Social Security Act, proceeds from life insurance policies where the head of the household had died, and the accumulated savings of elderly persons planning for retirement. These variables are heavily taxed by the BEOG program and we did not wish to include them in the State grant means test.

Our study showed that for low- and low-middle-income families, asset holdings and nontaxable income were not related to total income. Rather, asset holdings were related to where persons lived, the age of the head of the household, and whether the head of the household was still alive. I hope you will reconsider whether criteria other than taxable income, with certain adjustments for excluded income, are valid measures of need for the low-income population that the BEOG program is supposed to serve.

I respectfully submit that the Federal student aid program can be effective only if it complements State and institutional efforts. Federal policy should provide strong incentives to States and institutions to augment their efforts. Together, rather than separately, we can best serve student needs.

There are two alternatives available for a genuine State-Federal sharing effort in providing student aid.

The program for Federal matching of State student incentive grants is potentially effective, if the program is administered in accordance with congressional intent and expanded to a more meaningful level. Funds from this program will help in a small way to finance New York State's expanded tuition assistance plan. This important Federal program should be extended.

A second and additional possibility is to restructure the Federal BEOG program so that States with significant student aid entitlement programs may have the option to coordinate a State-Federal partnership along the lines of the guaranteed loan program model in New York. Several models are possible and I am told at least one will be presented to you by other speakers.

We strongly support the continuation and extension of the Federal BEOG program restructured as indicated above. Congress is to be commended for supporting the innovative principles of a Federal entitlement program for students. As a new program it has its problems. We hope that the experience of the last year suggests that a State-Federal partnership is a better approach for administration than the separate operation of Federal and State entitlement programs designed to serve the same students. By the end of next year almost all States will have established student aid programs. The continuation of uncoordinated State and Federal efforts no longer makes sense.

Thank you, Mr. Chairman.

[Supplemental statement and appendixes follow:]

SUPPLEMENTARY STATEMENT OF T. EDWARD HOLLANDER, DEPUTY COMMISSIONER FOR HIGHER AND PROFESSIONAL EDUCATION, NEW YORK STATE DEPARTMENT OF EDUCATION ON ADMINISTRATION OF STATE STUDENT INCENTIVE GRANT

Mr. Chairman, may I add one concern with regard to the administration of the State Student Incentive Grant Program which I know will be of interest to you. This is a serious case in which the administration of Congressional policy by USOE will be inconsistent with Congressional intent.

We are much concerned that the manner in which the United States Office of Education intends to allocate funds for the State Scholar Incentive Program for FY 1974 will work to the detriment of the interests of thirty-one states. A list of those states is attached. The issue at stake is the determination of which base year of expenditure by the state is to be used to determine eligibility for Federal allocation.

As indicated in the attached correspondence with U.S. Commissioner John Ottina, Appendix C, we believe that the Congressional intent for this program is the states' allotment of FY 1974 SSIG funds should be made to those states with operating state grant programs in FY 1974. The Congress must have intended in this legislation that the allocation of Federal funds in any year would be on the basis of the expenditures by the states during that same fiscal year. The intention was not to permit the allocation on the basis of prospective state expenditures for the succeeding fiscal year. Yet that is exactly the way the U.S. Office plans to administer the program.

We have no disagreement with the United States Office of Education with regard to the period of time or fiscal year in which the Federal funds can be expended. Neither do we have any disagreement on the intention of the law to encourage states to establish new scholar incentive programs or to increase their existing programs. This legislation was enacted in 1972 and, indeed, any states choosing to take advantage of the legislation had ample opportunity to set state programs in place. Any state not having a program during the FY 1974, has the opportunity to establish a program during FY 1975 or thereafter and be eligible for Federal funds in the fiscal year 1975 or years subsequent thereto.

The United States Office of Education interpretation of the year of state expenditure to be selected for allocation of Federal funds has the net effect of (1) penalizing those states with programs in effect during the same fiscal year in which the Federal funds were appropriated; (2) actually decreasing the total amount of money which will flow to the several states in this program in the long haul; and (3) establishing a gross inequity for any state not currently having a state program but establishing one during the fiscal year 1975. Points two and three need some elaboration.

With regard to point two, we point out that the Administration has followed a path on this program to attempt to slow down its implementation and to keep expenditures as limited as possible. First the Administration, in effect, tried to impound these funds and is only making them available at the very end of FY 1974. I point out, in addition, that the Administration has not even proposed a continuation of this program for FY 1975. The net effect of the Administration's decision with regard to which fiscal year is chosen for state expenditures results in the fact that those states eligible during FY 1974 on the basis of expenditures for 1974 will be short-changed in the amount of more than $3 million. Those states in FY 1975 would continue to receive that amount of money and additional sums for any added expenditure for those states. The states which have established programs to begin in FY 1975 would, of course, be eligible for new Federal funds in that fiscal year. By its implementation, USOE is attempting to grind down the total amount of money made available to the states for this important program.

With regard to point three, I note that under the USOE interpretation any state not now having a state program but establishing one afer June 30, 1974, would be ineligible to receive any of the Federal funds appropriated for FY 1975. Since USOE is considering that the allocation of Federal fiscal 1974 funds is based on state fiscal 1975 expenditures, it follows that USOE would consider the distribution of Federal fiscal 1975 funds on the basis of Fiscal 1976 expenditures. The state, therefore, that establishes a program during FY 1975, is ineligible to receive any Federal fiscal funds during that year. That state would have to wait until Federal year 1976, at which point its expenditures from FY 1977 would be used to determine its entitlement. That was certainly not the intention of the Congress.

The entire interpretation of USOE on using prospective expenditures to allot funds is inequitable, unsound, and completely contrary to the intention of the Congress. I urge you, Mr. Chairman, and the members of the Committee to move immediately in contacting Secretary Weinberger and Commissioner Ottina for a reversal of the decisions made in USOE with regard to the year of expenditure by the states in order to determine the Federal allotment. Thank you.

States which initiate grant programs in 1974–75 should be recognized through a FY 1975 SSIG appropriation. I am presenting a table, under Appendix D, which demonstrates the effect of continuing the FY 1974 allocation to the 31 states with state grant programs in effect in 1973–74. For many of the 31 states listed, the increases under the suggested allocation system are significant.

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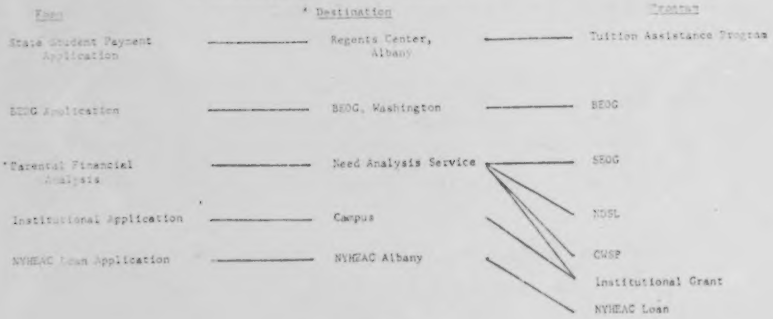
APPENDIX A

Forms to be completed by Typical Freshman

Financial Aid Applicant in New York State


Form
* Destination
Program
State Student Payment Application
Regents Center, Albany
Tuition Assistance Program
BEOG Application
BEOG, Washington
BEOG
*Parental Financial Analysis
Need Analysis Service
SEOG
NDSL
Institutional Application
Campus
CWSP
NYHEAC Loan Application
NYHEAC Albany
Institutional Grant
NYHEAC Loan

APPENDIX B

FINANCIAL AID FOR NEW YORK STATE STUDENTS—SUMMARY OF MAJOR FINDINGS

SECTION I

Section I provides a statistical overview of the Regents Student Assistance Programs for 1972–73. Changes in the program have occurred since the last report to the Governor and the Legislature on the status of the programs (1969–70). Since the last report, the maximum scholar incentive payment was increased from $500 to $600. Minimum awards of $100 were eliminated for those students from families with adjusted net taxable income of more than $20,000.

Total Awards Are Up $14.3 Million

Total awards under all programs have risen from $68.2 million in 1969–70 to $82.5 million in 1972–73. Almost all of the increase has been in the scholar incentive award program. Average undergraduate scholar incentive payments rose from $170 to $235 and the average graduate payments rose from $311 to $346 between 1969–70 and 1972–73.

Payments to Private Colleges Level Off

The distribution of scholar incentive payments reflects the shift in the proportion of students from the private to the public sector. In 1969–70 48.9% of the scholar incentive payments were made to students in independent colleges; this past year the percentage was down to 39.3% The students at private colleges sustained an even greater decrease in terms of the proportion of the total dollar value of scholar incentive payments. In 1969–70, 56.1% of the total scholar incentive dollars went to students at private colleges, whereas only 35% of the total scholar incentive amounts went to students at private colleges in 1972–73. During the three year period, total dollar value of scholar incentive payments rose by almost 40% because of the increased scale. However, total scholar incentive dollars to private college students rose by only 5.6%, while the total scholar incentive dollars to students at State University campuses including community colleges rose 71%.

Scholar Incentive Payments Do Not Equalize Tuition Charges

In 1972–73 the average payment was $243 to students at private colleges and $206 to students at State-operated campuses. If State University Scholarships and partial tuition waivers are included with scholar incentive grants, State University students receive State non-competitive tuition subsidies that are almost equal to the average amounts awarded to students at private colleges.

An Increased Number of Regents Scholarship Holders are Attending State University Campuses

The distribution of Regents College Scholarship holders also has changed. In 1969–70 49.5% of the scholarship holders attended private colleges; in 1972–73 the figure was down to 42.6%. This represents a decline in actual numbers of almost 4,500 students, or 13.5% between 1969–70 and 1972–73.

More Students Use Awards at the State University

Differences exist in the percentage of New York State's residents who use the Regents program in the different sectors. An estimated 80% of the New York State residents attending State University campuses receive scholar incentive or Regents Scholarship payments. At the upstate community colleges the percentage is 66%, and at the private colleges the percentage is 63%. The difference between the percentages for SUNY and private colleges results from a larger percentage of the students at private colleges being ineligible because of high income.

SECTION II

How Scholar Incentive Recipients Finance College Costs

The second section of this report deals with a study of scholar incentive recipients. The research objectives fell into three broad categories: (1) to determine the cost of college attendance, (2) to determine the financial strength of families of scholar incentive award holders, and (3) to determine the resources used by scholar incentive award holders to finance their cost. Five thousand students were sampled, by randomly drawing 100 students from each of 50 representative New York State institutions of Higher Education. A questionnaire was administered, and a useable return rate of 79.7% was achieved for the private colleges, 70.5% for the State University campuses, and 53.9% for the upstate community colleges.

Demographic Differences Exist Between Public and Private College Scholar Incentive Award Recipients

Scholar incentive students at private colleges tend to be slightly younger than the students at State University campuses. Students at the public colleges tend to come from larger families than do the students at private colleges. More than half of the total number of children in the families of the Scholar Incentive Award holders sampled are college students. Private colleges have a much larger proportion of male students than female students; the reverse is true at State University campuses. 58.1% of the S.I. holders sampled at private colleges are males while 42.5% at State University are male, and 48.9% at community colleges are males.

Average Family Income and Assets are Similar for Scholar Incentive Award Recipients at SUNY and Private Colleges

The average income and asset levels for the scholar incentive holders at private and at State University campuses were quite similar, while S.I. holders at community colleges tended to be lower on all income and asset variables except for the value of residence equity. The higher average for students at community colleges is the result of a higher percentage of community college families owning their own home. Most of the community college students are from rural areas where home ownership is prevalent. However, in the private sector, fewer students are eligible to receive awards than in the other sectors. The following table shows these averages:

AVERAGE FAMILY INCOME AND ASSETS

	Private	SUNY	Community colleges
Adjusted net taxable balance	$6,778	$6,892	$6,197
Gross taxable income	13,682	13,902	11,897
Residence equity	14,560	14,895	15,715
Other assets	9,095	9,887	6,569

The costs of college attendance

The first major portion of the study of scholar incentive holders dealt with the costs facing college students and their families. Tuition as well as non-tuition costs were considered.

Tuition Charges Vary Significantly Among Sectors and Within the Private Sector.

A substantial tuition difference between public and private colleges exists. However, a significant range of tuition rates occurs at the private colleges. The tuition charges for the private colleges in the sample range from $1,000 to $3,200 per year.

The Average Non-Tuition Costs also Differ by Sector

The higher average non-tuition cost for State University students results primarily from the large percentage of State University students who are resident rather than commuter students. 41% of the students at private college were commuters, while only 12% of the students at State University campuses were commuters, and 80% of the students at community colleges were commuters.

Amounts to be Financed by Students and Parents Vary by Sector

The average net cost to be financed by students and their parents was also determined. Net cost is total cost less all grants to the students. The average net cost at private colleges was found to be $2,960, while at State University campuses it was $2,198., and to community colleges it was $1,617. The following table shows total cost and cost and costs less grants;

AVERAGE COSTS AND FINANCING

	Private	SUNY	Community college
Average tuition	$2,382	$740	$556
Average nontuition cost	1,801	2,091	1,539
Average total cost	4,183	2,831	2,095
Less:			
Grants	1,223	633	478
Loans	630	503	217
Subtotal	1,853	1,136	695
Amount to be financed by students and parents	2,330	1,695	1,400

Family Financial Strength

A second area of the study of scholarship incentive holders dealt with family financial strength. More specifically, it sought to assess the validity or usefulness of the net taxable income means test. At present, payments under the current programs are scaled according to the net taxable income of the family. Several other more complex means analysis systems have been suggested. These would require parents to provide data on gross income from taxable and non-taxable sources, residence equity, other assets, and such other items as the value of life insurance policies.

A High Relationship Exists Between Net and Gross Incomes

The correlation coefficients between net taxable income and gross taxable income were found to be .81 for the families of students at private colleges, .82 for the families at State University campuses, and .80 for the families of students at community colleges. Thus, the relationship between net taxable income and gross income is quite high.

There Is No Positive Relationship Between Taxable and non-Taxable Income

The relationship between income from non-taxable sources and net taxable income was also determined. Rarely did families receive $2,000 or more in non-taxable income. At the private colleges only 9% received $2,000 or more, at State University campuses only 8% received $2,000 or more, and at community colleges

13% received $2,000 or more. A negative correlation was found between non-taxable income and net taxable income. In other words, non-taxable income sources such as social security, tend to go to families with low taxable income. Correlation coefficients were —.27 at the private colleges, —.18 at the State University campuses, and —.36 at the community colleges. Looked at another way, 68% of the cases that showed non-taxable income of $2,000 or more at the private colleges had net taxable incomes under $2,000. At the State University the comparable figure was 58%, and at community colleges the comparable figure was 61%. Inclusion of non-taxable income in the State means test would have a major impact on low income social security holders. The State would save grant funds on a relatively small proportion of the total college going population, most likely from families where the principal wage earner is deceased or retired.

There Is No Strong Relationship Between Assets and Income

The relationship between assets and net taxable income was also examined. No relationship was found between income and assets. Thus, if an asset computation were built into the State means test, the tax would not be placed on an income related factor but rather on such other factors as frugality or inheritances. Furthermore, requiring families to report assets and to use a portion to finance college costs would not result in a significant saving to the State.

A slightly stronger correlation, although still not a significant one, exists between net taxable income and the value of the home. The correlation coefficient is .24 among the families at private colleges, .28 among the families of students at State University colleges, and .35 among the families of students at community colleges. As mentioned earlier, a higher proportion of the families of community college students seem to own their homes, as they are from non-urban areas. It would seem reasonable to exclude the value of a family home from a means test as it cannot be readily converted to a means to finance college costs, if not an income related variable, and seems to be related to such other factors as whether or not the student lives in an urban or rural area.

Use of the Current State Taxable Income Means Test Should Be Continued

Considering the extremely large number of students who receive State grants, and that net taxable income is a reasonable measure of a family's financial strength, it would be preferable to retain the current simple system rather than to establish a more complicated system that takes into account variables which cannot be easily verified and would tend to be characteristic of low-income families.

The Income Adjustment for Families With More Than One Student in College Should Be Changed

The current State means test should be amended in cases where more than one member of the family is attending college. Currently the net taxable income of parents is divided by the number of children in college. This procedure in inequitable since it provides the greatest deductions to those with the highest incomes. The study found scholar incentive holders whose gross family income exceeds $40,000. Approximately 5% of the scholar incentive recipients are from families with gross incomes of $25,000 or more. A system of applying a flat deduction of $3,000 for the first additional family member in college, and $2,000 for each additional family member in college would not only be more equitable but would save the State significant amounts in grant payments. The proposal of the Regents would have cost $10 million more had this change not been made.

Patterns of Financing College

The final portion of the study dealt with the patterns of financing college. The data were analyzed in three ways: (1) to show aid funds by type and source, (2) to show patterns by year in college, and (3) to show patterns by income level.

Sources of Financial Aid Funds

The following table shows a summary of the different sources of aid funds used by students in the different sectors.

FINANCING PATTERNS BY SECTOR

	Private	SUNY	Community college
State grants	$534	$441	$284
Federal grants	177	141	177
Institutional grants	386	9	3
Other grants	126	42	14
Loans	630	503	217
Total	1,853	1,136	695

New York State is the Major Source of Grant Funds

More grant funds are provided by the State than any other source in support of scholar incentive holders. The State grants include Scholar Incentive, Regents Scholarships, State University Scholarship and Partial Tuition Waiver Awards as well as State grants provided to institutions for special programs for disadvantaged students: Higher Education Opportunity Program (HEOP), Educational Opportunity Program (EOP), and Search for Education, Elevation, and Knowledge (SEEK). Special program students at private colleges, despite higher costs, received significantly less in student financial aid through the programs than the opportunity students at State University campuses.

Federal Student Aid Grants Are Low

Federal grants are somewhat less important than State grants, especially the programs administered by the U.S. Office of Education such as the Basic Educational Opportunity Grant and Supplemental Educational Opportunity Grant Programs. Sixty percent of Federal funds to students at the private colleges were from the Veterans' Administration and the Social Security Administration. These agencies provided almost 80% of the federal funds awarded to students at the public colleges. The U.S. Office of Education Programs (the Federal student grant programs) financed less than 2% of the total costs at the private and State University campuses. After State grants, Social Security payments rank as the most important source of grant funds for students at the public colleges. At the private colleges, the major source of grant funds other than State grants was grants from college funds.

Neither State Grants nor Federal Grants Equalize Costs Among Sectors

Neither State grants nor Federal grants vary significantly among sectors in relation to costs. The single exception is State grants at community colleges, which are lower because of low tuition rates and the low number of Regents Scholarship winners.

Private colleges try to equalize costs by using their own funds. Institutional grants at private colleges accounted for almost one-third of the total grants.

Student Loans are the Second Most Important Source of Aid

Virtually all student loans are from governmental sources. The loans taken out by private college students cover a lower proportion of costs as compared to the loans taken out by State University students. Borrowing is somewhat lower at the community colleges than at the 4-year colleges. Community college students earn more than they borrow.

1973-74 LOANS

	Private	SUNY	Community college
Average of all students	$630	$503	$217
Percentage of students borrowing	55	45	24
Average loan of actual borrowers	$1,157	$1,088	$894

Many Students Work to Finance College Costs

Far more community college students worked during the academic year in order to finance their college costs compared to students at private and State University campuses. Thus, community college students show a clear preference for jobs as a means for financing college. Another factor inherent here may be that community college students are more likely to have jobs available since they do not leave their home town in order to attend college. The percentage of students working during the summer and during the academic year varies among the three sectors.

PERCENTAGE OF STUDENTS WORKING

	Private	SUNY	Community college
Summer	88	82	75
Academic year	25	21	42

Coordination of Financial Aid Programs Could Be Improved

Presently, students must rely on a wide variety of sources in order to finance college costs. However, it appears that few aid recipients fall outside of the pool of State grant recipients. Thus, it would be possible to achieve greater coordination by combining programs under the aegis of the Regents.

Financing Patterns by Class Year

Students do not receive more in non-state grants as they progress through college, nor do they borrow more. Regents Scholarship payments slightly to upper division State University students because of the increased tuition charge to upper division students.

Students Earn More as They Progress Through College

Summer earnings increase significantly as students progress. Average earnings increase by more than $100 per student between the freshman and sophomore years and by approximately $200 between the freshman and senior years. Academic year earnings also rise as students progress through college. At the private and State University campuses academic year earnings almost triple between freshman and sophomore years when averaged over all cases. This results from two factors: larger numbers of students working and those working earning larger sums. Students are able to earn, as an overall average, almost $400 more in their senior year as compared to their freshman year in private colleges, and almost $250 more at State University campuses.

Parental support by class year remains fairly constant at private colleges; parental support by class year declines at State University campuses. Both public and private college students increase earnings in the upper division. Parents of State University students tend to reduce their support as the students' earnings increase.

Many College Seniors Are Deeply in Debt

By the time SI holders get to their senior year significant numbers of them are in debt for large amounts.

CUMULATIVE INDEBTEDNESS OF SENIOR SI HOLDERS

	Private	SUNY	Community college
Average of all seniors	$2,235	$1,743	$459
Percentage of seniors with loans	70	69	34
Average cumulative debt for seniors with loans	$3,188	$2,535	$1,299

Seventy percent of senior SI holders at four-year colleges have borrowed. The mean loan for seniors at private colleges who borrowed is almost $3,200; the mean loan for seniors at public campuses who borrowed is over $2,500. These levels are quite high; it may not be possible to greatly increase the use of loans to finance college.

Financing Patterns by Income Level

The study also analyzed financing patterns by income level. It was found that a strong relationship does not exist between income and many sources of financial aid.

There is Low Correlation Between Income and Non-State Grant Awards

While there is a relationship between net taxable income and grant payments, other than Scholar Incentive and Regents Scholarship payments, the relationship is not as strong as had been expected. While the highest grants go to low income students, there is a surprising leveling that takes place between the $4,000 and $12,000 income levels, rather than a continuous sloping downward of the grants as income rises. The correlation coefficients between net taxable income and total grants are —.37 at the private colleges, —.38 at the State University colleges, and —.34 at the community colleges. It is apparent that many grants are still awarded according to factors other than family income.

Income Predicts the Amount of Scholar Incentive Grants

There is a high correlation between the amount of scholar incentive payments and net taxable income as well as gross income.

Low Income Students Receive Fewer Regents Scholarships

The correlation between income and Regents Scholarship payments is weak. At the private colleges the correlation is —.21, at State University Campuses it is —.11, and at the community colleges it is —.01. Although low income students can receive larger Regents scholarship payments, far fewer income students win Regents scholarships. Thus, the correlation is weak. At the private colleges, 31% of students in the $0–2,000 net taxable income group receive scholarships, whereas 42% of the students in the $2,000–$16,000 income group receive scholarships. Forty-nine percent of the students from families with incomes in excess of $16,000 receive Regents Scholarships.

There is a very high correlation between income and the actual amount of Regents Scholarship payments.

A Poor Relationship Between Income and Federal Grants Exists Even Though the Federal Grants Are Targeted at Low Income Students

Federal Grants are not strongly related to income. Although grants tend to go to low income students, most low income students do not receive grants. Thus, the overall relationship is weak.

There is no Relationship Between Income and Loans and Work

When student earnings and the amounts they borrowed were analyzed by income level, it was found that no relationship existed between net taxable income and these variables. It is not until the highest income levels that loans begin to taper off at the private colleges. New York State Higher Education Assistance Corporation Loans are randomly distributed in relation to income.

Parental Support Is Related to Income

As would be expected, parental support rises as net taxable income rises. The correlation coefficient was found to be .60 at the private colleges, .53 at State University colleges, and only .33 at community colleges. The lower correlation at the community colleges results from parental support leveling off rapidly because the college costs do not require increased parental inputs.

APPENDIX C

THE UNIVERSITY OF THE STATE OF NEW YORK,
THE STATE EDUCATION DEPARTMENT,
Albany, N.Y., May 3, 1974.

Mr. JOHN OTTINA,
U.S. Commissioner of Education,
Department of Health, Education, and Welfare,
Office of Education, Washington, D.C.

DEAR MR. OTTINA: As you are aware, New York State has submitted a statement of its intent to participate in the State Student Incentive Grant Program.

In this connection, it is apparent from the application form and from the draft regulations that the Office of Education interprets the FY 74 appropriations as applicable to State expenditures in FY 75.

We wish to take this opportunity to register our strong objections to this interpretation, which will obviously penalize New York State and all other states that have operative programs during FY 74. To the extent that the already inadequate FY 74 appropriation is used to reimburse states for programs first initiated in FY 75, the final total allotment to the other states must be reduced.

It seems clear to us that the intent of the FY 74 appropriation was to reimburse the states for FY 74 expenditures, and that the appropriation should be limited to that purpose. States that do not have operative programs in FY 74 should certainly be encouraged to initiate such programs in FY 75, and states that already have programs should be encouraged to enlarge and expand them. But those purposes must be achieved by a new FY 75 appropriation, and not by a diversion of the FY 74 appropriation.

We would appreciate assurance from your office that the FY 74 appropriation will be limited to FY 74 expenditures.

Sincerely,

GORDON M. AMBACH,
Acting Commissioner of Education.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
Washington, D.C., May 23, 1974.

Dr. GORDON M. AMBACH,
Acting Commissioner of Education,
State Education Department,
Albany, N.Y.

DEAR COMMISSIONER AMBACH: Thank you for your letter of May 3 in which you reaffirmed New York's keen interest in participating in the State Student Incentive Grant Program, and in which you raised the issue of this program as a vehicle to reimburse States for previous efforts versus its use as an inducement to encourage States to establish or expand student assistance programs.

The present legislation merely establishes a final date for the expenditure of appropriations and is silent on when States may spend those funds. However, forward rather than retroactive funding is consistent with the provisions of Section 415A(b)(3), which states in part: "Sums appropriated . . . for any fiscal year shall remain available for payments to States for the award of student grants under this subpart until the end of the fiscal year succeeding the fiscal year for which such sums were appropriated."

These provisions in the legislation, combined with a recognition of the time required to establish State programs, were reflected in my March 22 letter to the Governors of the States and Territories. In eliciting their interest in having their States participate. I pointed out that States which do not already have programs for expansion may exercise their option to participate by developing appropriate new programs by March 31, 1975. In keeping with the legislation, the regulations which are in the final stages of clearance with DHEW, provide for reallotments to be made from funds released by those States which do not choose to participate and those which are unable to match their initial entitlement.

I am sure that New York's zeal for its own State scholarships program will be tempered by a recognition that some other States need time to develop initial programs before their allotments are withdrawn and reassigned to State agencies eligible to receive them.

We appreciate our comments and look forward to working with your State agency on this promising Federal-State venture to provide substantially needy undergraduates with the assistance they need for higher postsecondary education.

Sincerely,

JOHN OTTINA,
U.S. Commissioner of Education.

Appendix D

ESTIMATED DISTRIBUTION OF FISCAL YEAR 1974 SSIG FUNDS ($19,000,000) FOR 31 STATES OPERATING STATE GRANT PROGRAMS IN 1973–74

State	Estimated State amount for fiscal year 1974	OE estimated State amount if distributed among 50 States for fiscal year 1975	Estimated increase
California	3,372,537	2,815,287	557,250
Connecticut	321,305	268,249	53,056
Delaware	67,829	56,811	10,988
Florida	637,829	532,658	105,171
Georgia	346,204	289,066	57,138
Illinois	1,192,723	995,880	196,843
Indiana	494,044	412,419	81,625
Iowa	268,408	224,142	44,266
Kansas	264,479	220,841	43,638
Kentucky	265,448	221,496	43,952
Maine	84,558	70,744	13,814
Maryland	411,816	344,005	67,811
Massachusetts	789,463	659,176	130,287
Michigan	997,521	832,701	164,820
Minnesota	387,249	323,518	63,731
Missouri	462,964	386,676	76,288
New Jersey	590,611	493,288	97,323
New York	2,085,764	1,741,368	344,396
North Dakota	72,874	60,944	11,930
Ohio	957,001	799,087	157,914
Oregon	302,190	252,273	49,917
Pennsylvania	1,053,725	879,800	173,925
Rhode Island	122,476	102,384	20,092
South Carolina	230,036	192,049	37,987
Tennessee	361,246	301,597	59,649
Texas	1,195,926	998,455	197,471
Vermont	62,406	52,046	10,360
Virginia	432,619	361,354	71,265
Washington	473,593	395,421	78,172
West Virginia	155,981	130,238	25,743
Wisconsin	534,239	446,021	88,218
Total	[1] 18,995,064	15,860,024	3,135,040

[1] Total is less than $19,000,000 due to rounding.

Mr. O'Hara. Thank you very much, Mr. Hollander. The gentleman from Oregon has to leave, so I am going to permit him to question the witness first.

Mr. Dellenback. I appreciate that. I apologize again for having to mix up committees this morning and having to be at several.

We have a lot of respect for what you are doing in New York. We had a chance to work with Dr. Boyer and we have a great regard for that aspect of the work.

May I ask one line of questioning. On page 6 you talk about reasons why you could not accept Federal criteria. I understand No. 2 and I understand No. 5 and No. 4 and your argumentation for No. 5, but I am not sure I get the reason underlying No. 1. You say that less than 2 percent of college-going costs were covered by BEOG and when fully implemented may cover only 3 percent of costs.

Mr. Hollander. I don't know the reason fully, but I suspect the criteria for the determination of economic need when combined, limit the program to very, very few students in the State. That is No. 1.

Mr. Dellenback. Let me be sure I understand that. Your 2 percent is in totality. You are not talking about 2 percent for any student reciving a BEOG grant?

Mr. Hollander. No. Let me define the population sampled here. We define the middle-income or low-middle-income student receiving net taxable income of $20,000 or less. That is equivalent to roughly

$25,000 gross income. So the population we sampled constituted all students in this State, residents of the State attending New York State institutions with $25,000 or less income. That is the group that receives our tuition assistance award.

Within that group the level of BEOG's received on the average for that group was 2 percent. In contrast, our own program provided greater support than that and the institutional aid programs of our colleges and universities provided more support than that. If the Federal effort was larger than our own effort, we would say fine. We would defer to the Federal criteria, but the Federal effort was so small it did not make sense.

Mr. Dellenback. Do you have any statistics on how many BEOG dollars went into New York?

Mr. Hollander. We did this on a student-by-student basis.

Mr. Dellenback. I am not sure how the mathematics could work out with that low a percentage with New York contributing more, unless of course there were more New York dollars that went into this kind of student aid than the Federal dollars. That is why I am wondering what the comparable dollars were. That is why I wonder how many BEOG and how many State dollars.

Mr. Hollander. Ours was an examination of the program from the perspective of the student. We sampled what the cost of higher education was to these 5,000 students and how they financed it.

Let me give you the sources of their funds for the students who have responded to the survey. The total amount of grants available to the students per capita was about $1,200, of which, on the average, $500 came from New York State grants. Institutional grants came to about $400 on the average per student, and the Federal grants came to $10 per student. The grants received by students in this category totaled $1,200 toward the cost of their education. Of that $1,200 average grant received by a student in this income category, only $10 was as a result of the BEOG program.

This is only the first year of the BEOG program and it affected freshmen only, but if you extended the level to full funding and carried it to full classes, it would not increase very much.

Mr. Dellenback. We appropriated about $122 million and perhaps $40 million of that would be carried. So say $80 million went into the nationwide picture in that first year. The next year, the one we are just getting into, we have 475 plus about $40 million carryover, so there would be about 515. We don't know yet what is going to be appropriated in the coming year.

I think it would be a grave mistake if the Congress appropriated less than $800 million, but we have some indications the Appropriations Committee may appropriate less than that. But even if we went to $800 million, the first mathematical unit of $80 million 1 year——

Mr. Hollander. It would be 100 instead of 10 on the average for this income group.

Mr. Dellenback. I don't think we are going to be able to take that up to 500 in a straight mathematical throw. If it means going to $400 million in the future, I don't see that in the future for BEOG.

Mr. Hollander. I am only arguing here that the Federal effort is not less than what it could be, but relative to other programs, this program is small. It would not be appropriate from our point of view to adopt a Federal criterion when this is a relatively small effort compared to the others. That is point 1.

Point 2, I think the Federal BEOG program is most effective if it encourages other States to establish their own and complements such efforts. I would hope the policy and the thrust would be to encourage States to build on that program with their own programs and not leave the total effort to the BEOG program, because by itself it is an insufficient effort.

Mr. DELLENBACK. You also make comment on the student incentive grant and you say potentially effective, and you say this is an important Federal program and should be extended. I am pleased to get that additional testimony because I know that was a fund that was not provided for in the Presidential budget. A number of us have urged the Appropriations Committee to go beyond the $19 million figure of last year. Whether we will be successful in the long run I don't know, but I could not agree with you more this is an important program and from what I understand of it, it has proven to be a catalyst and incentive to bring the type of coordinated program that really runs through your testimony as a desirable goal.

Thank you very much. I appreciate this input.

Thank you, Mr. Chairman.

Mr. O'HARA. Mr. Hollander, under your tuition grant program the maximum award of any institution is the lesser of tuition or $1,500. Your table in your statement which assumes tuition of $1,500 in the private college and $650 in the State University. What is the rationale of limiting that to tuition or $1,500?

Mr. HOLLANDER. The policy of the State, at least of our State, is that students in similar economic circumstances ought to be provided roughly the same proportionate share of the cost of going to college, and the student ought not be limited because he is poor to a public institution. He ought to be able to select an institution whether it is proprietary or private or public that he thinks best meets his needs and, of course, admits him. If the State University charges only $650 tuition, we want a student in the lowest income group, which in our State we define as $6,500 or less gross income, to go to that institution free.

If he wants to go to a private institution, and it is a low-cost private institution which we would define as one charging $1,500 for tuition, he can go to that institution free. He should have that freedom of choice. To the extent the private institution charges more than $1,500, then that requires the student effort to make up the difference between the actual tuition and $1,500.

We believe our private institutions, perhaps due to a historical accident, perhaps due to their own intention, share the fundamental mission of the public institutions. They should be permitted to continue in this manner and the students who want to go there should be permitted to do so, and that is the rationale or justification.

Mr. O'HARA. I am not sure whether it should cost me more if I want my kids to go to a private school than a public one, but it ought not cost these people more: is that right?

Mr. HOLLANDER. It depends on your private income category.

Mr. O'HARA. I am not sure there is something wrong with someone with means to go to a higher-cost institution.

Mr. Hollander. If a student is poor and wants to go to a private institution and it best meets his educational needs, and some of the private institutions in New York are open to public admissions, but it should be the student's choice and not the State's. If he is poor, he really does not have the choice unless you help him go there.

Mr. O'Hara. In terms of grant aid, I think I would limit my grant aid to the public school tuition and then if someone wants to go to a more expensive school, provide some other kind of assistance.

Mr. Hollander. Let's differentiate. The public schools are not cheaper than the private schools. That is, the cost of offering instructional services at public institutions is not necessarily lower than the cost of offering instructional services at the private institutions. As a matter of public policy we subsidize very significantly the costs of the public institutions and this is why they charge low tuition.

The City University of New York is free. The costs are fully subsidized.

Mr. O'Hara. I can buy that rationale, but then I think you ought to give a private school tuition subsidy to any student who goes there regardless of income. In other words, if you have the $25,000 income person——

Mr. Hollander. We do that, too.

Mr. O'Hara. Let's say if you are compensating for the tax dollars that go to the public institution and you are saying, OK, if you send your child to the private institution, you will no be getting the contribution from the taxpayer that you would have been getting if you sent him to a public institution, so therefore we will make it up to you by giving you a tuition grant. If you follow that rationale, which is a perfectly logical one, I don't see any point to the income cutoff.

Mr. Hollander. We use a different rationale. Our rationale is that all institutions in the State serve a public mission. If I listed all of our institutions and did no tell you whether they were public or private, there would be no way of your differentiating among them in terms of whom they admit, how well they educate them, and the fields of study offered.

Until 15 or 20 years ago, outside the city of New York, there was no public institutions throughout the State except for a few teachers' colleges, and the private institutions came to serve a public mission. They have continued to do so. We do not believe that they ought to be heavily subsidized by the State because they do offer a difference due to the difference of control. They have their own boards of trustees, they raise their own funds and, to a great extent, they define their educational programs with minimum State intervention. We think that is good. A public institution differs from them because they get a much bigger State subsidy.

Private institutions do receive a State subsidy, roughly 10 percent of their educational costs, but having set this system in place, our focus shifts to the student. What are the students' needs and how can we best meet their needs and how do we give them freedom of choice? If students want to go to private institutions and cannot do so, we believe it is our responsibility to make it possible for them to do so.

It is not our responsibility to go beyond that. We want to provide the student with as much freedom of choice and freedom from economic restraint as we possibly can. That is the rationale for our program. We are not trying to compensate for the taxes saved in the private sector. We are trying to make it possible for the student to make a free choice, free from economic restraints.

Mr. O'HARA. Do you have an aid program for elementary and secondary schools?

Mr. HOLLANDER. We have a program for the elementary and secondary schools. It has to do with supporting certain programs of study and certain administrative costs in the nonpublic schools. There we run into the church-state issue. In postsecondary education we don't run into that. There is a financing of students also in the nonpublic elementary and secondary schools.

Mr. O'HARA. Apparently you don't tax assets in your tuition grant program.

Mr. HOLLANDER. No, we do not.

Mr. O'HARA. I want you to adduce some evidence, if you can, but you feel for one reason or another that that gives you a better criterion for aid eligibility not taxing assets than taxing assets would? I would like to get any studies you did in connection with arriving at that decision. Do you have a report on that decision?

Mr. HOLLANDER. We have a report on financial aid to New York State students, which was a study of our 5,000 scholar incentive students and this presents our findings with respect to what the consequence would be if we introduced an asset test into our own program.

I think we distributed copies of this. The summary of this report is appendix B. We will send you copies if we have not.

Our finding was, first, that there was no correlation between asset holdings and income; second, that location, where people lived, had more to do with whether they owned their own homes or not. Community scholarships tended to show more home ownership among community college students than students in 4-year colleges.

If you lived upstate, chances are you owned your own home, because in all likelihood that is the only place where the student could live.

As I pointed out in my testimony, lower income students tended to have assets because they were saving for retirement or the head of the household was dead and they were left life insurance proceeds which were being kept in reserves. Our argument is if you were dealing with a population from zero income up to high income, assets would make a difference. When you are dealing only with low-income families, then assets, we think, would have very little to do with your ability to finance a collegiate education.

But even if it did, we think it would be poor policy to tax it. The widow would have the proceeds of life insurance if they came from a low-income family or people saving for old age would have assets. Where else would a low-income family accumulate assets?

We also concluded that if we included assets, it would make a 4-percent difference in the level of award and we did not feel that justified a shift in policy.

Mr. O'HARA. Does your study show some of this?

Mr. HOLLANDER. Yes, it shows the correlation of distribution and assets level.

Mr. O'HARA. I would like very much to have a copy of that. I tend to agree with you and I would like to have some material to study to see if I really do and if so, to support my arguments. My feeling has been, as I have dealt with these BEOG schedules, that the assets test has workd a number of individual injustices and it has not helped in doing anything, I don't think. If it is income-producing assets, it will show up in income. If it is not income-producing assets we are talking about, I don't see that it matters that much.

Mr. HOLLANDER. It does, however, encourage dishonesty. How does one determine the value of one's home? It also encourages, I guess, people who are desperate not to report. But most of all, it is probably very, very confusing. It introduces a level of confusion in determining just what you are entitled to that is not justified in terms of either overall policy or the amount of savings to the State government.

Mr. O'HARA. The only thing that makes the BEOG computation comparable, if it were not for that, the average Congressman would not be able to figure it out even. So, there is that advantage to getting rid of it.

Thank you very much, Mr. Hollander. I know you have a plane to catch and we appreciate your coming down. Without objection, the material included as appendices to your statement were included in the record at the conclusion of your statement.

We will conclude our testimony on State programs by hearing from the Office of Education with regard to the State scholarship incentive grant program authorized under sections 415 A, B, C, and D of the Higher Education Act. Once again the Agency is represented by Mr. Charles M. Cooke, Jr., Deputy Assistant Secretary for Legislation (Education), Department of Health, Education, and Welfare; Dr. John Phillips, Acting Associate Commissioner for Student Assistance. Mr. Cooke and Dr. Phillips are accompanied this morning by Dr. Richard McVity, director of the State student incentive grants program.

I hope I don't anticipate Dr. Phillips' testimony if I observe that the incentive grant program was authorized by the 1972 amendment, but there has not yet been an administration request for funding of it. The Congress, exercising its own prerogatives, however, has elected to fund this program at the $20-million level in the fiscal year 1974 Appropriations Act.

The administration, I am told, is only spending $19 million of this, utilizing this time in accordance with the law a 5-percent impoundment authority also conferred by the 1974 Appropriations Act.

Dr. Phillips, we would be pleased to hear from you.

STATEMENT OF JOHN D. PHILLIPS, ACTING ASSOCIATE COMMISSIONER FOR STUDENT ASSISTANCE, BUREAU OF POSTSECONDARY EDUCATION, U.S. OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY CHARLES M. COOKE, JR., DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION), AND RICHARD L. McVITY, DIRECTOR, STATE STUDENT INCENTIVE GRANT PROGRAM, BUREAU OF POSTSECONDARY EDUCATION, OFFICE OF EDUCATION

Dr. PHILLIPS. Thank you, Mr. Chairman and members of the subcommittee. We appreciate the opportunity to review the history and operation of the State student incentive grant program, authorized under title IV–A of the Higher Education Act of 1965, as amended (Public Law 92–318). This program was established under the Education Amendments of 1972, and became operational with the passage of an appropriation for fiscal year 1974. The following statement is intended to provide only a brief overview of the State student incentive grant program. However, we would also be happy to respond to questions from committee members who might wish us to expand upon this written statement.

I. LEGISLATIVE HISTORY OF THE STATE STUDENT INCENTIVE GRANT PROGRAM

Over the past several decades States have increasingly adopted the practice of making grant assistance available to students for attendance at institutions of postsecondary education. The Education Amendments of 1972 authorized a Federal incentive program designed to encourage those States now having student grant programs to expand them further and to stimulate States not currently awarding student grants to initiate such programs.

Under the State student incentive grant program Federal funds are made available on a 50–50 basis to match new dollars expended by States from their own funds for grants to undergraduate students having "substantial financial need" to attend institutions of postsecondary education. To be eligible for Federal funds under this program States must establish student grant programs under which:

A. Program administration is the responsibility of a single State agency.

B. Student grants are awarded in amounts not in excess of $1,500 per student per academic year ($750 Federal share) for full-time attendance.

C. Student recipients are selected on the basis of substantial financial need, as defined by criteria established by the States and approved by the Commissioner.

D. Payment of the non-Federal share of student grants is from funds supplied by the State which represent an additional expenditure over the amount expended by the State for student grants in the second fiscal year previous to the year in which the State first receives funds under the program.

It is estimated that the authorized level of $50 million of Federal funds for the first operating year of the program would support assistance to about 200,000 students, with an average grant of $500 ($250 Federal and $250 State).

II. OPERATION OF THE SSIG PROGRAM

The initial appropriation for the SSIG program was $20 million, out of which $19 million has been apportioned for allotment to the States in accordance with the 5-percent reduction language contained in the fiscal year 1974 Labor-HEW Appropriations Act. As specified in the legislation, State allotments were calculated according to the number of students in attendance, on at least a half-time basis, at institutions of postsecondary education in each State (see table A). The same criteria will be used for reallotment of funds relinquished by those States which do not choose to participate in the program for

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1974–75, or which cannot provide matching funds equal to their full allotment.

[The table referred to follows:]

TABLE A.—FINAL, OFFICIAL—SEC. VIII. ESTIMATED DISTRIBUTION OF FUNDS UNDER TITLE IV, PT. A, SUBPT. 3, HIGHER EDUCATION ACT OF 1965, AS AMENDED BY PUBLIC LAW 92-318, STATE INCENTIVE GRANTS, FISCAL YEAR 1974

	Estimated State amounts [1]	Percent per State
United States and outlying areas	$19,000,000	100.00
50 States and District of Columbia	18,833,228	99.12
Alabama	243,153	1.28
Alaska	28,143	.15
Arizona	253,323	1.33
Arkansas	110,408	.58
California	2,815,287	14.81
Colorado	264,443	1.39
Connecticut	268,249	1.41
Delaware	56,841	.30
Florida	532,658	2.80
Georgia	289,066	1.52
Hawaii	87,105	.46
Idaho	71,923	.38
Illinois	995,880	5.23
Indiana	412,419	2.17
Iowa	224,142	1.18
Kansas	220,841	1.16
Kentucky	221,496	1.17
Louisiana	275,164	1.45
Maine	70,744	.37
Maryland	344,005	1.81
Massachusetts	659,176	3.47
Michigan	832,701	4.38
Minnesota	323,518	1.70
Mississippi	164,366	.87
Missouri	386,676	2.04
Montana	57,730	.30
Nebraska	135,247	.71
Nevada	35,363	.19
New Hampshire	61,833	.33
New Jersey	493,228	2.60
New Mexico	99,290	.52
New York	1,741,368	9.16
North Carolina	406,453	2.14
North Dakota	60,944	.32
Ohio	799,087	4.21
Oklahoma	250,172	1.32
Oregon	252,273	1.33
Pennsylvania	879,800	4.63
Rhode Island	102,384	.54
South Carolina	192,049	1.01
South Dakota	59,173	.31
Tennessee	301,597	1.59
Texas	998,455	5.25
Utah	168,466	.89
Vermont	52,646	.28
Virginia	361,354	1.90
Washington	395,421	2.08
West Virginia	130,238	.69
Wisconsin	446,021	2.35
Wyoming	36,141	.19
District of Columbia	164,768	.87
Subtotal—Outlying areas	166,772	88
American Samoa	1,736	.01
Canal Zone	00	.00
Guam	6,861	.04
Puerto Rico	154,291	.81
Virgin Islands	3,636	.02
Trust Territory	248	.00

[1] Distribution of $19,000,000 on the basis of the total enrollment in institutions of higher education, fall 1972.

Dr. PHILLIPS. On March 22, 1974, the U.S. Commissioner of Education wrote to the Governors of all the States (and territories), announcing activation of the SSIG program and inviting their participation in the program. In response to that letter, 28 States indicated they already had student grant programs in operation which would be available to provide assistance for undergraduate students with substantial financial need to attend postsecondary institutions in 1974–75. All of those States expressed an interest in applying for Federal matching funds to expand these programs in compliance with the incentive features in the SSIG legislation.

Another 12 States indicated they will be establishing such programs prior to June 30, 1974: 11 additional States indicated they contemplate establishing eligible programs by March 31, 1975, and desire to apply for an allotment, contingent upon such establishment. As of May 31, 1974, only Alabama, Alaska, Arizona, District of Columbia, Guam and Hawaii had declined to participate. All of the other 51 eligible States and territories have either submitted their formal applications for participation (40 States) or have indicated that they intend to submit them before the June 17, 1974, closing date indicated in the Federal Register (11 States).

The enabling legislation allows an additional year beyond the year of the appropriation for obligation of funds. However, the Appropriations Act did not include a similar authority. Therefore, without the recent technical amendment contained in the second supplemental appropriations measure (the "Case amendment"), which extends the Commission's authority to obligate fiscal year 1974 SSIG funds until June 30, 1975, it would have been necessary to allot the entire appropriation among only those 40 States and territories with programs in existence as of June 30, 1974.

The enactment of the technical amendment now makes it possible to reserve funds from the fiscal year 1974 appropriation to assist those 11 additional States that have indicated a desire to participate, but which will not have qualifying programs until March 31, 1975. This action now provides a true incentive for those States to create State student assistance programs which also assure a more equitable distribution of program funds.

It is now certain that the entire $19 million appropriation will be matched by $19 million in new State grant funds, to provide a total of $38 million to assist approximately 76,000 students in 1974–75 at an average award of $500.

III. EVALUATION AND EXPECTATION

Although it is too early to evaluate the impact of the SSIG program, the incentive feature of the program appears to be operating successfully.

Table B shows the years in which each of the States and territories established (or plan to establish) qualifying State grant programs. In fiscal year 1971–72 (the year before the State student incentive grant program was authorized)—also it is the base year for this program—only 23 States had scholarship or grant programs.

Since that time 28 additional States and territories have either established programs or indicated an expectation that such programs will be established by March 31, 1975. It would appear that the SSIG authorization and funding have had a positive effect not only in broadening existing State programs, but also in stimulating less populated States and those with limited fiscal capacity to initiate efforts in the area of student assistance.

In compliance with the basic thrust of the SSIG legislation, program regulations permit States to (*a*) include larger numbers of eligible students than would otherwise be possible under previously existing State grant or scholarship programs; (*b*) provide grants or scholarships to eligible students in amounts which more nearly meet the substantial financial need of such students than was possible under previous programs; or (*c*) increase in other ways the range of opportunities available to students for access to postsecondary institutions.

The regulations thus provide incentives for States to take a broad look at their total financial assistance programs and to fill gaps where appropriate, according to local priorities and perceived needs of students as individuals. States are being encouraged to share information with institutions, thereby contributing to improved packaging of resources for all student aid recipients.

It is especially important to note that the regulations regarding approval of State standards for determining "substantial financial need" are sufficiently flexible to permit the States to define need not only in terms of poverty, but also in terms of other criteria. This is in keeping with the legislative intent which suggests that a State may use awards from the SSIG program to facilitate choice among postsecondary study options for middle- as well as low-income students.

To provide this flexibility, and at the same time suggest reasonable outside limits in determining "substantial financial need," the regulations indicate student eligibility limits of (1) no more than $2,800 in expected family contribution; (2) no less than a $90 difference between educational costs and expected family contribution; (3) no more than a $20,000 net family income; or (4) other reasonably comparable eligibility standards relating to need.

Most States use established needs analysis systems, such as the American College Testing system, the Basic Educational Opportunity Grant system, or the College Scholarship Service. However, some States plan to us family income—with or without related factors as the basis for determining substantial need. In short, the regulations permit diversity of practice from State to State.

The program has two attractive features which are worthy of note: (1) each Federal dollar is matched by a State dollar, thereby producing a multiplier effect which automatically assures twice the number of dollars which could be achieved by Federal dollars standing alone, (2) the program strategy affords to the Federal Government a widespread administrative network of State officials, many of whom are experienced in packaging student assistance.

It should be noted, however, that there are several differences between the SSIG program and other Federally-supported programs of student assistance. These include:

1. Under existing SSIG legislation, once the basic requirement of "substantial financial need" had been satisfied, the States are free to use nonfinancial criteria in selecting grant recipients. Thus, a State may limit its awards to only those students above a set level of academic achievement or to only those students who are state residents. Those are only examples. There are other criteria as well.

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2. Under the SSIG legislation the States are not required to follow the Federal definition of student eligibility. Therefore, full and equal access to the benefits of this program cannot be assured for students in certain categories; for example, students attending on less than a fulltime basis, or students wishing to pursue postsecondary studies outside their home states.

3. Neither are States required to follow Federal definitions of institutional eligibility in making student grants. This can cause wide variations from State to State in patterns of institutional participants. For example, in one State grants may go only to students attending private institutions; in another, grants may be awarded only to students attending public institutions.

4. A fundamental problem concerns the nature of the basic State allotment formula which was adopted for the program. Under present law, funds are distributed to States based on each State's proportion of the total national postsecondary enrollment, regardless of whether such enrollment includes students residing in other States. Thus, a student may contribute to a State's allotment without being eligible as a non-State resident for an SSI Grant.

In additon, while State allotments are made according to each State's portion of the total postsecondary enrollment, students in one or more segments of the institutional population may be ineligible for grants. This situation has had an especially adverse effect upon the participation of students attending proprietary institutions.

Again, Mr. Chairman, we are merely calling these issues to your attention and will be happy to discuss possible legislative changes at a later date.

At this point, Mr. Chairman, I will be pleased to answer questions from members of the subcommittee.

[Table B follows:]

TABLE B.—DEVELOPMENT OF STATE SCHOLARSHIP-ASSISTANCE PROGRAMS FROM SCHOOL YEAR 1971-72 TO 1975-76, BASED UPON PRE-SSIG PROGRAM APPLICATION DATA

Assistance programs	Ongoing before SSIG[1]		Programs added, including SSIG		No program plans
Existing 1971-72 (23): California, Connecticut, Florida, Illinois, Indiana, Iowa, Kansas, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Washington, West Virginia, Wisconsin.	Added 1972-73(3): Alaska[2], Maine, Tennessee.	Added 1973-74(2): Missouri, North Dakota.	Added 1974-75(12): Colorado, Delaware, Georgia, Idaho, Kentucky, Nebraska, Oklahoma, Puerto Rico, South Dakota, Utah, Virginia, Virgin Islands.	To be added 1975-76(11): American Samoa, Arkansas, Louisiana, Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Carolina, Trust Territory, Wyoming[3].	No plans (5): Alabama, Arizona, District of Columbia[3], Guam, Hawaii.

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[1] Derived from Dr. Joseph Boyd, Illinois State Scholarship Commission, table entitled "Dollars and Number of Awards and Related Data by States for Comprehensive Undergraduate State (Competitive and Noncompetitive, Programs of Financial Aid Based Upon Need for Residents of the State to Attend Either Public or Nonpublic Colleges and Universities."

[2] Not participating in SSIG.

[3] No formal response from Governor as of May 6, 1974.

Mr. O'Hara. Thank you very much, Dr. Phillips. We do have some questions.

You have spoken of the regulations in your testimony. What regulations have you issued on this program and as of what date?

Dr. Phillips. They were published on May 31, 1974, and the effective date is June 30, 1974. I have a copy of the regulations that were published with me today.[1]

Mr. O'Hara. I think we ought to include them in the record if we could, and we would like to have additional copies as well. Without objection they will be included at the conclusion of your statement.

Then the regulations are prospective really. They have not taken effect. Of course, the $19 million has not been distributed in any way.

Dr. Phillips. That is correct.

Mr. O'Hara. Have you made any studies of the potential absorption? In other words, how much you could put into this program and still get the States kicking in 50 percent? It certainly looks like a way of doubling your money.

Dr. Phillips. Perhaps Dr. McVity could respond to that question.

Dr. McVity. The only measure we have as of now, since all of the applications have not come in and the closing date is June 17, is the amount indicated by the 40 or so States whose applications are already in, in terms of what they would see as their matching capability right now. That figure is running somewhere between $90 and $95 million, and given that only $19 million is available, this would indicate there is still a way to go before we reach the saturation point.

Mr. O'Hara. That is certainly very interesting and very revealing.

As you know, Dr. Phillips, from our earlier conversations with respect to the study, members of the committee are naturally desirous of finding ways to use the Federal assistance dollars to maximize dollars from other sources. We talked about that in work-study, changing the ratio to agency or university contribution or whatever and work-study jobs, and we have talked about stimulating COOP, which is 100 percent private money, using Federal funds to stimulate activity in COOP. This looks to me like a rather promising way to get additional grant dollars from other sources into student assistance. I would hope that you will be exploring that possibility. It might even make some sense to put some BEOG or SEOG money in here to maximize the total amount of grant money.

I am not expecting you to give me a definitive response to that.

Dr. Phillips. I think in the best of all worlds, if there were less limited total resources and one could look at all of the possibilities equally, then perhaps the SSIG program would come into focus as a most appropriate and desirable kind of delivery mechanism.

Mr. O'Hara. I am impressed by the fact that for every dollar that you put into grant assistance that way, you get $2 actual grant assistance to the students if the regulations are being followed and if they are, indeed, extra dollars, if the incentive is working to produce extra dollars.

Dr. Phillips. I can certainly assure you that the regulations are written in that manner and the incentive features are being fully carried out. The money appropriated by the Congress will be utilized to support a 50-50 matching program during 1974-75, and we will carefully administer the program to be sure we are fully aware of what is going on and what the results are.

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[1] See page 161.

Mr. O'Hara. Dr. Andringa has suggested once the fiscal year 1974 appropriation for SSIG is obligated and used for initial-year grants by the States, what considerations must Congress take into account for the fiscal year 1975 appropriation? That is, how should we distinguish initial year and continuing grants in the appropriation if we want to at least maintain the present level of commitment to share cost—I am talking about the cost of the student incentive program. That is a good question.

Dr. Phillips. Of course, without in any way endeavoring to discuss matters of budgetary policy, I think we could report administratively that we are as yet uncertain as to what would be required to sustain continuation awards for a second year. Estimates that we have received internally suggest that it could run anywhere from $13 to $17 million. There is a rather important point here, and that is this: The law does quite specifically call for two separate line items in each year, one for initial awards and another for continuation awards.

I expect that if the Congress should decide to make an appropriation for this program beyond the fiscal year 1974 funding, appropriation language ideally should distinguish between the two types of money in order to avoid difficulty in administration.

It should be recalled that the Commissioner of Education has a rather full measure of discretion in the allotment of continuation funds, but little or no discretion in the allotment of initial funds, which is done pretty much on a State-formula basis. So, if the Congress should decide to enact an appropriation covering both initial and continuation funds, I think it would perhaps be useful if the Congress could consider permitting some transferability between the two line items. This would be of great assistance to us, administratively speaking, and to the States, since we cannot at this time predict what would be the exact level of demand in 1975–76—that is to say, for 1975 funds—for either type of money. Is that responsive to your question?

Mr. O'Hara. Yes, it is. Let me get into another point.

In your opening remarks you say, "Student recipients are selected on the basis of substantial financial need, as defined by criteria established by the Commissioner." And then those criteria are spelled out.

Dr. Phillips. That's right, and they are intended to be very broad, outside limits within which the States can select their own specific criteria for submission to the Commissioner for approval.

If I remember correctly, even it they find some difficulty in handling the $2,800 expected family distribution, the $90 minimum difference between family contribution and costs, or the $20,000 net family income, they are in a position to suggest an alternate method that is in some way comparable to those standards. In other words, the intention of the regulations is to set broad outside limits to provide a good deal of flexibility to the States in designing what they feel is a reasonable definition of substantial financial need in the terms of their own State.

Mr. O'Hara. I take it under the regulations if a State does not wish to include an assets test or a tax on assets, it would not have to?

Dr. Phillips. That is correct, sir.

Mr. O'Hara. I very much appreciate your taking a copy of the study Mr. Hollander brought us——

Dr. PHILLIPS. We have a copy.

Mr. O'HARA [continuing]. Examining the effect of using or taxing or not taxing assets as such, because one of the things we are going to be talking to you about when we do get around to putting together legislation is this question of the taxation.

Dr. PHILLIPS. Are you, in effect, making a request that we study the treatment of assets not only in connection with the legislation, but also in connection with the upcoming discussions of the family contributions schedule for the basic grant program?

Mr. O'HARA. That would be fine. I have really serious questions about it. As you know, all the trouble you run into on BEOG or family-contribution schedules have to do with family contributions, 90 percent of it, and it is what makes it complicated. Some of the gentlemen on the Appropriations Committee are concerned about their farm constituents, and so forth. There are all kinds of problems.

Dr. PHILLIPS. I believe we are scheduled to be here tomorrow to talk about the supplemental grant program.

Mr. O'HARA. Thank you very much for your very enlightening testimony on this program. We will give it study. I frankly have not read the regulations and I have to do that. You somehow got by me. I did not realize you had published them. That is because I don't read my Federal Register every morning. I schedule too many hearings to permit me to read my Federal Register.

Mr. Hollander, in his appendix, said any State beginning a program in fiscal year 1975 but receiving some of the initial fiscal 1974–75 funds will not qualify for fiscal year 1975 funds.

Dr. PHILLIPS. If they receive fiscal year appropriations for 1974, they would not qualify for 1975 appropriations? No, the only questions would be whether they continue to make available the necessary matching moneys and whether they meet other criteria established in the law.

Mr. O'HARA. I think there is a misunderstanding of what Mr. Hollander said. "* * * I note that under the USOE interpretation any State not now having a State program but establishing one after June 30, 1974, would be ineligible to receive any of the Federal funds appropriated for fiscal year 1975." Their program would have to be established.

Dr. PHILLIPS. That issue, I believe, is resolved by the technical amendment to which I alluded in the testimony. He is quite correct that there was a ruling within the Office of Education that suggested we could not do that, and that is why we sent up the technical amendment. Passage of that amendment means that 11 States which would have been adversely affected by the administrative ruling will be able to receive their 1974 funds. And we presume that, having learned our lesson this year, if there should be any further appropriation for this program, we would request the Congress to make sure that comparable language is contained in future appropriations acts.

[The regulations referred to follow:]

SSIG REGULATIONS

1. Section 100b.10 of Title 45 of the Code of Federal Regulations is amended by adding a new paragraph (1) which reads as follows:

(1) Grants to States under the State Student Incentive Grant Program authorized by Title IV–A–3 of the Higher Education Act of 1965 as amended (20 U.S.C. 1070c–1070c–3).

2. Chapter I of Title 45 of the Code of Federal Regulations is amended by adding a new Part 192, which reads as follows:

PART 192—STATE STUDENT INCENTIVE GRANT PROGRAM

Sec.
192.1 Purpose.
192.2 Definitions.
192.3 Allotment and reallotment.
192.4 State program requirements.
192.5 State applications.
192.6 Student eligibility.
192.7 State standards of determining substantial financial need.
192.8 Approval of State criteria for determining expected family contribution.
192.9 Maintenance of effort.
192.10 Use of funds.
192.11 Disapproval of State applications.
192.12 General provisions regulation.

AUTHORITY: Sections 415A–415D of Title IV of the Higher Education Act of 1965 as amended, by Section 131(b)(1) 86 Stat. 255–258 (20 U.S.C. 1070c–1070c–3), unless otherwise noted.

§ *192.1 Purpose*

The purpose of this part is to make incentive grants available to the States to assist them in providing grants to eligible students with substantial financial need to enable such students to attend or continue to attend institutions of higher education. States may develop new student grant programs, or may expand existing ones by enlarging the class of eligible grant recipients and/or by increasing the size of the grants previously awarded.

(20 U.S.C. 1070c)

§ *192.2 Definitions*

"Academic year" means a period of time, usually eight (8) or nine (9) months, during which a full-time student would normally be expected to complete the equivalent of two semesters, two trimesters, three quarters or 900 clock hours of instruction.

"Act" means Title IV, Part A, Subpart 3 of the Higher Education Act of 1965, as amended (20 U.S.C. 1070c–1070c–3).

"Clock Hour" means a period of time which is the equivalent of either (1) a 50 to 60 minute class, lecture, or recitation, (2) two hours of laboratory, shop training, or internship requiring outside preparation, (3) two hours of outside preparation related to (1) and (2), or (4) three hours of laboratory, shop training, or internship not requiring outside preparation.

"Continuing award" means an award of funds under this part to a student that does not qualify as an "initial award" as defined in § 192.2.

"Cost of education" means the cost of education as defined by each State.

"Dependent student" is a student who does not qualify as "self-supporting or independent student" as defined in § 192.2.

"Expected family contribution of a dependent student" means the sum of the amounts which reasonably may be expected from the student and his spouse to meet the student's cost of education and the amount which reasonably may be expected to be made available to him by his parents for such purpose.

"Expected family contribution of an independent or self-supporting student" means the amount which reasonably may be expected from the student and his spouse to meet the student's cost of education.

"Full time student" means a student who is carrying a full-time academic work load, other than by correspondence, measured in terms of (1) course work or other required activities as determined by the institution in which the student is enrolled, or by the State whose agency is administering the program authorized by the Act, including any combination of courses, work experience, research or special studies which the institution requires of the student to consider him as being engaged in full-time study, and which amounts to the equivalent of a minimum of 12 semester hours or 12 quarter hours per academic term for institutions utilizing trimesters, semesters, or quarter hour systems, or which consist of a program requiring a minimum of 25 clock hours per week for those institutions that do not utilize such systems, and (9) the tuition and fees customarily charged for full-time study by the institution.

"Half-time student" means a student who is carrying a half-time academic work load measured in terms of (1) course work or other required activities as determined by the institution in which the student is enrolled, or by the State whose agency is administering the program authorized by the Act, including any combination of courses, work experience, research or special studies which the institution requires of the student to consider him as being engaged in part-time study, and which amounts to a minimum of 6 semester hours or 6 quarter hours for institutions utilizing trimesters, semesters or quarters, or which consists of a program requiring a minimum of 13 clock hours per week for those institutions which do not utilize such systems, and (2) the tuition and fees customarily charged for half-time study by the institution.

(20 U.S.C. 1088(c)(2))

"Independent or self-supporting student" means an independent or self-supporting student as defined by each State.

"Initial award" means the first award made to a student under this part. A payment under this part by a State to any student who had previously received a payment of grant funds under this part by any State shall not be considered an initial award payment.

"Institution of higher education" means an educational institution in any State which (1) admits as regular students only persons having a certificate of graduation from a school providing secondary education, or the recognized equivalent of such a certificate, (2) is legally authorized within such State to provide a program of education beyond secondary education, (3) provides an educational program for which it awards a bachelor's degree or provides not less than a two-year program which is acceptable for full credit toward such a degree, (4) is a public or other nonprofit institutions, and (5) is accredited by a nationally recognized accrediting agency or association or, if not so accredited, (i) is an institution with respect to which the Commissioner has determined that there is satisfactory assurance, considering the resources available to the institution, the period of time, if any, during which it has operated, the effort it is making to meet accreditation standards, and the purpose for which this determination is being made, that the institution will meet the accreditation standards of such an agency or association within a reasonable time, or (ii) is an institution whose credits are accepted, or transfer, by not less than three institutions which are so accredited, for credit on the same basis as if transferred from an institution so accredited.

Such term also includes any school which provides not less than a one-year program of training to prepare students for gainful employment in a recognized occupation and which meets the provision of clauses (1), (2), (4), and (5) unless the school is a public institution in which case it may also be accredited by the State agency in that State which has been listed by the Commissioner as a reliable authority as to the quality of public postsecondary vocational education in that State, and any proprietary institution of higher education, as defined in § 192.2, which has an agreement with the Commissioner containing such terms and conditions as the Commissioner determines to be necessary to insure that the availability of assistance to students at the school under this part has not resulted, and will not result, in an increase in the tuition, fees, or other charges to such students.

(20 U.S.C. 1087-1(b), 1141(a))

"National of the United States" means (1) a citizen of the United States, or (2) a person who though not a citizen of the United States owes permanent allegiance to the United States.

(8 U.S.C. 1101(a)(22))

any other person, except the student's spouse, provides more than one-half of the student's support and claims or is eligible to claim the student as an exemption for Federal income tax purposes, in which case such person shall be considered the parent.

"Proprietary institution of higher education" means a school (1) which provides not less than a six-month program of training to prepare students for gainful employment in a recognized occupation, (2) which admits as regular students only persons having a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate, (4) which is legally authorized by the State in which it is located to provide a program of education beyond secondary education, (4) which is accredited by a nationally recognized accrediting agency or association approved by the Commissioner for this purpose, (5) which is not a public or other nonprofit institution, and (6) which has been in existence for at least two years.

(20 U.S.C. 1088(b)(3))

"State" means, in addition to the several States of the Union, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the Trust Territory of the Pacific Islands, and the Virgin Islands.

(20 U.S.C. 1141(b); 20 U.S.C. 1088(a))

"Undergraduate student" means a student who (1) is in attendance at an institution of higher education and (2) has not earned his first baccalaureate or professional degree. A student who has not earned his first baccalaureate or professional degree and who is enrolled in a program of study at the postsecondary level which is designed to extend for more than four academic years shall not be considered an undergraduate student in that portion of the program that involves study beyond the fourth academic year unless that program leads to a first degree and is designed to extend for a period of five academic years.

§ *192.3 Allotment and reallotment*

(*a*) *Allotment of funds for initial awards.*—From the sums appropriated pursuant to section 415A(b)(1) of the Act for any fiscal year, the Commissioner will allot to each State an amount which bears the same ratio to such sums as the number of students in attendance as at least half-time students at institutions of higher education in such State bears to the total number of such students in such attendance in all the States.

(b) *Reallotment of funds for initial awards.*—The amount of any State's allotment under paragraph (a) of this section for any fiscal year for that State's grant program for such fiscal year shall be available for reallotment from time to time, on such dates during such year as the Commissioner may fix, to other States in proportion to the original allotments to such States under paragraph (a) of this section for such year, but with such proportionate amount for any of such States being reduced to the extent it exceeds the sum of the Commissioner estimates such State needs and will be able to use for such year for carrying out the State plan; and the total of such reductions shall be similarly realloted among the States whose proportionate amounts were not so reduced.

(c) Any amount reallotted to a State under paragraph (b) of this section during a year shall be deemed part of its allotment under paragraph (a) of this section for such year.

(d) For the purposes of this section, the number of students in attendance as at least half-time students at institutions of higher education in a State and in all the States will be determined by the Commissioner for the most recent year for which satisfactory data are available to him.

(20 U.S.C. 1070c-1)

§ *192.4 State program requirements*

A State may receive funds allotted to it under § 192.3 for any fiscal year only if such funds will be expended pursuant to a State program which

(1) is administered by a single State agency;

(2) awards such grants only to students who meet the eligibility requirements of § 192.6;

(3) provides for the selection of recipients of such grants on the basis of substantial financial need determined annually on the basis of criteria established by the State and approved by the Commissioner;

(4) provides that such grants will be in amounts not in excess of $1,500 per academic year for attendance on a full-time basis at an institution of higher education;

(5) meets the maintenance of effort requirement of §192.9;

(6) provides for such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of and accounting for Federal funds paid to the State under this part;

(7) provides for the making of such reports, in such form and containing such information, as may be reasonably necessary to enable the Commissioner to perform his functions under this part; and

(8) provides for the payment of the non-Federal share of grants awarded under this part from funds supplied by the State.

(20 U.S.C. 1070c-2)

§ *192.5 State applications*

(a) Any State wishing to obtain a payment under this part which has not previously received funds under this Act shall file an application with the Commissioner, through the State agency administering its program of student grants, which shall be in such form, and contain the following information and such other information and assurances, as the Commissioner may from time to time prescribe:

(1) a description of the applicable State grant program, including:

(i) the name of the State agency administering the program,

(ii) a certification by an appropriate State official that the above State agency is the single State agency responsible for the administration of this grant program and that such agency has the authority to participate in and receive funds under this part,

(iii) the maximum grant permitted under the program,

(iv) the program's definition of substantial financial need,

(v) the criteria and procedures used in determining financial need, in selecting grant recipients and in determining the amount of such grants,

(vi) a description of the students eligible to receive grants, and

(vii) the type of school students receiving grants under the program may attend;

(2) The amount of funds to be spent by the State in the fiscal year for which funds are requested under this part for grants to all students attending institutions of higher education, including grants to undergraduate students awarded such funds on the basis of substantial need;

(3) The amount of funds, if any, expended by the State for grants to all students attending institutions of higher education, including grants to undergraduate students awarded such funds on the basis of substantial financial need, during the second fiscal year preceding the fiscal year in which the State will first receive funds under this part; and

(4) An assurance that the State will match the amount of fund allotted or reallotted to it under § 192.3 for the fiscal year, or if the State cannot make such an assurance, the amount of Federal funds that the State can match for that fiscai year.

(b) Any State which has previously received funds under the Act that wishes to obtain a payment under this part shall file an application with the Commissioner, through the State agency administering its program of student grants, which shall be in such form, and contain the following information and such other information or assurances, as the Commissioner may from time to time prescribe:

(1) the definition of substantial financial need;

(2) the criteria and procedures used in determining financial need, in selecting grant recipients and in determining the amount of such grants;

(3) the information described in subparagraphs (2) and (4) of paragraph (a) of this section; and

(4) an assurance that the applicable State program continues to meet the requirements of §192.4.

(c) The Commissioner will from time to time establish cut off dates for the filing of applications.

(20 U.S.C. 1070c–2)

§ *192.6 Student eligibility*

In order to receive a grant under this part, a student must (1) be a national of the United States, be in the United States for other than a temporary purpose and intend to become a permanent resident thereof, or be a permanent resident of the Trust Territories of the Pacific Islands; (2) be enrolled or accepted for enrollment as at least a half-time undergraduate student at an institution of

§ *192.7 State standards for determining substantial financial need*

(a) A State program under this part shall define substantial financial need and establish standards for determining whether an applicant for a grant has higher education; and (3) have substantial financial need as determined annually in accodance with § 192.7.

such need. Such standards may include, but are not limited to

(1) a student's expected family contribution;

(2) the difference between a student's cost of education and his expected family contribution; or

(3) the student's or where relevant, the student's parents' income.

(b) A student will be deemed by the Commissioner to have substantial financial need under a State program (1) which determines such need by evaluating only the student's expected family contribution if that student's expected family contribution is not more than $2800; (2) which determines such need by evaluating the difference between the student's cost of education and his expected family contribution if that difference is at least $90; (3) which determines such need by evaluating the student's, and where relevant, the student's parents' income if the student's net income does not exceed $20,000, or, where relevant, if the parents' net income does not exceed $20,000; or (4) which determines such need in accordance with standards other than those specifically listed in paragraph (a) of this section if the amount of need determined in accordance with that standard is reasonably comparable to the amount of need that would be determined under the standards listed in paragraph (a).

(c) A State program which provides for the selection of recipients on the basis of criteria which do not qualify under the provisions of paragraph (b) may, nevertheless, be approved, pursuant to Section 415C(b)(4) of the Act, if the State demonstrates, to the satisfaction of the Commissioner, that such program provides for the selection of recipients only on the basis of substantial financial need.

(20 U.S.C. 1070c–2)

§ 192.8 Approval of State criteria for determining expected family contribution

(a) *Dependent students.*—The Commissoner will approve the criteria of a State program which uses an expected family contribution in determining whether a dependent student has substantial financial need if such State takes into consideration at least the following factors in determining the amount of income and net assets that should reasonably be made available by the student, the student's spouse and the student's parent for meeting the student's cost of education:

(1) any serious family illness;

(2) the number of dependent children of the student's parents;

(3) the number of such dependent children attending institutions of higher education; and

(4) such other circumstances as may affect the ability of the student and student's parents to contribute toward the cost of the student's education.

(b) *Independent or self-supporting students.*—The Commissioner will approve the criteria of a State program which utilizes an expected family contribution in determining whether an independent or self-supporting student has substantial financial need if such State takes into consideration at least the following factors when calculating that portion of the income and net assets of the student and the student's spouse which should reasonably be made available for meeting the student's cost of education:

(1) any serious illness in the student's family;

(2) the number of dependent children of the student;

(3) the number of such dependent children attending institutions of higher education; and

(4) such other circumstances as may affect the ability of the student or spouse to contribute toward the cost of the student's education.

(c) The Commissioner has determined that any of the following need analysis systems or methods of calculation meet the criteria set forth in paragraph (a) and (b) of this section. Thus, in determining the amount of a student's expected family contribution a State may use:

(1) systems of need analysis published by the American College Testing Services and the College Scholarship Service,

(2) the method of calculating an expected family contribution used in the Basic Educational Opportunity Grant Program (45 CFR 190), or

(3) for dependent students only, the Income Tax System—For purposes of this part, the expected family contribution calculated according to the Income Tax System is an amount equal to the amount of income tax paid by the parents of such student, 5 percent of such parents' net assets in excess of $7,500 and any amount the student is reasonably abel to contribute.

(d) The Commissioner will approve any other need analysis system or method of calculation which produces an expected family contribution reasonably comparable to those produced by those described in paragraph (c) of this section.

(20 U.S.C. 1070c-2)

§ 192.9 *Maintenance of effort*

The amount of funds expended by the State for the non-Federal portion of awards made under this part for each fiscal year shall represent an additional expenditure for that year by that State over the amounts, if any, expended by such State for grants to all students attending institutions of higher education during the second fiscal year preceding the fiscal year in which such State initially received funds under this part.

(20 U.S.C. 1070c-2(b)(4))

§ 192.10 *Use of funds*

Funds paid to a State under this part may be used by such State only to pay 50 percent of the amount of student grants made under this part.

(20 U.S.C. 1070c-2)

§ 192.11 *Disapproval of State applications*

The Commissioner will comply with the provisions of § 2415D of the Act (regarding notice, opportunity for a hearing, and judicial review) before finally disapproving any application of a State.

(20 U.S.C. 1070c-3)

§ 192.12 *General provisions regulation*

Assistance provided under this part is subject to applicable provisions contained in Subchapter A of this Chapter (relating to fiscal, administrative and other matters).

(20 U.S.C. 1070c-1070c-3)

Mr. O'HARA. Thank you very much.

The special subcommittee will stand in adjournment. We are scheduled to meet at 9:30 tomorrow morning in this room on grant programs.

(Whereupon, at 10:40 a.m. the subcommittee recessed, to reconvene at 9:30 a.m. on the following day, Tuesday, June 11, 1974.)

NATIONAL ASSOCIATION OF STATE SCHOLARSHIP PROGRAMS,
June 11, 1974.

JAMES G. O'HARA,
Chairman, Special Subcommittee on Education, House of Representatives, Cannon House Office Building, Washington, D.C.

DEAR CONGRESSMAN O'HARA: On behalf of the National Association of State Scholarship Programs, I would again like to express our appreciation to you for the invitation to testify on June 6, before your Special Subcommittee.

After the hearing, a number of us discussed your creative suggestion that matching federal funds might be offered to the states which could then use the funds to match a variety of different programs. We enthusiastically endorse this concept and suggest that a variety of state responses might result, including:

(1) Matching grant programs to meet specifically identified state needs, e.g., low-income students, minority students, middle income students, etc.

(2) Matching workstudy and/or community service employment programs. Under such programs, the state agency might coordinate off-campus and summer employment opportunities while the institutions would concentrate on an on-campus effort.

(3) Matching loan programs under which the states might use the funds to make loans directly, subsidize loan interest payments, or build reserve funds.

(4) Matching programs combining in a variety of ways the grant-work-loan options described above.

A critically important feature of such a program would be that the states would have the flexibility to meet their unique student aid needs. The federal government, on the other hand, would participate in the establishment of broad goals and objectives. The State Plan approach used successfully in other programs including the Higher Education Facilities Act of 1963 might be used to implement such a federal-state cooperative effort.

We would welcome the opportunity to work with you and members of the Subcommittee staff to further refine this concept and prepare fiscal estimates if you feel this is a viable option which will be considered in the planned revision of Title IV.

Sincerely,

RICHARD H. JOHNSTON,
President, NASSP.

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY,
Chapel Hill, N.C., May 28, 1974.

Hon. JAMES G. O'HARA,
Chairman, House Subcommittee on Education, House of Representatives, Congress of the United States, Washington, D.C.

DEAR CONGRESSMAN O'HARA: As you begin comprehensive hearings on a broad range of topics relating to student assistance including consideration of how existing programs may be restructured to produce more efficient results, I do hope that you will take into account the need to provide at the Federal level the most flexible language that will permit and encourage creative and innovative participation among all the states. Degrees of sophistication in student financial aid delivery systems among the states vary widely, but a specific objective of any new Federal legislation should be the inclusion of flexibility into Federal acts so as to allow states the latitude of tailoring state programs with the Federal programs in unique ways to meet the unique needs of the individual residents of a given state.

I trust that this point will be made by others as you receive testimony from them in the days ahead.

Very truly yours,

STAN C. BROADWAY.

STUDENT FINANCIAL ASSISTANCE—PART 6

(Grant Programs)

TUESDAY, JUNE 11, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:50 a.m., pursuant to call in room 2261, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (presiding).

Present: Representatives O'Hara and Dellenback.

Staff members present: Jim Harrison, staff director; Elnora Teets, clerk; Robert C. Andringa, minority staff director; and John Lee, minority staff.

Mr. O'Hara. This morning we begin our hearings on the grant segment of the student aid package. We have had several hearings on the basic educational opportunity grant program and for that reason I have asked the Office of Education to focus primarily on the supplemental educational opportunity grant program in its presentation this morning.

First, at this point in the record, I would like to have inserted the text of that part of the Higher Education Act which establishes the basic grant and supplemental grant programs.

(The statutory language referred to is Title IV, Part A, subparts 1 and 2 of the Higher Education Act of 1965, as amended.)

APPENDIX I

TITLE IV—STUDENT ASSISTANCE

PART A—GRANTS TO STUDENTS IN ATTENDANCE AT INSTITUTIONS OF HIGHER EDUCATION

STATEMENT OF PURPOSE: PROGRAM AUTHORIZATION

SEC. 401. (a) It is the purpose of this part, to assist in making available the benefits of postsecondary education to qualified students in institutions of higher education by—

(1) providing basic educational opportunity grants (hereinafter referred to as "basic grants") to all eligible students;

(2) providing supplemental educational opportunity grants (hereinafter referred to as "supplemental grants") to those students of exceptional need who, for lack of such a grant, would be unable to obtain the benefits of a postsecondary education;

(3) providing for payments to the States to assist them in making financial aid available to such students;

(4) providing for special programs and projects designed (A) to identify and encourage qualified youths with financial or cultural need with a potential for postseconary education, (B) to prepare students from low-income families for postsecondary education, and (C) to provide remedial (including remedial language study) and other services to students; and

(5) providing assistance to institutions of higher education.

(b) The Commissioner shall, in accordance with subpart 1, 2, 3, 4 and 5, carry out programs to achieve the purposes of this part.

(20 U.S.C. 1070) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 247–248; amended June 23, 1972, P.L. 92–318, sec. 1001(c), 86 Stat. 381.

SUBPART 1—BASIC EDUCATIONAL OPPORTUNITY GRANTS

BASIC EDUCATIONAL OPPORTUNITY GRANTS: AMMOUNT AND DETERMINATIONS: APPLICATIONS

SEC. 411. (a)(1) The Commissioner shall, during the period beginning July 1, 1972, and ending June 30, 1975, pay to each student who has been accepted for enrollment in, or is in good standing at, an institution of higher education (according to the prescribed standards, regulations, and practices of that institution) for each academic year during which that student is in attendance at that institution, as an undergraduate, a basic grant in the amount for which that student is eligible, as determined pursuant to paragraph (2).[6]

(2)(A)(i) The amount of the basic grant for a student eligible under this subpart for any academic year shall be $1,400, less an amount equal to the amount determined under paragraph (3) to be the expected family contribution with respect to that student for that year.

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[6] Sec. 2 of P.L. 93–35, enacted May 16, 1973, provided:

"If the appropriation for the fiscal year 1973 for making payments under subpart 1 of part A of title IV of the Higher Education Act of 1965 does not exceed $385,000,000, payments under such subpart from such appropriation shall not be paid on the basis of any entitlement for any student (1) who was in attendance, as a regular student (as defined by the Commissioner of Education), at an institution of higher education prior to July 1, 1973, or (2) who is in attendance at such an institution on less than a full-time basis."

And P.L. 93–192, the Act making appropriations for the Departments of Labor and Health, Education and Welfare and related agencies for the fiscal year ending June 30, 1974, provided, with respect to funds appropriated thereunder that "amounts for basic opportunity grants shall be available only for full-time students at institutions of higher education who are not enrolled as regular students (as defined by the Commissioner of Education) at such institutions prior to April 1, 1973." (87 Stat. 755)

In effect, these enactments limited eligibility for grants under this subpart to full-time freshmen in the academic year 1973–1974, and to freshmen and sophomores in the academic year 1974–1975.

(ii) In any case where a student attends an institution of higher education on less than a full-time basis during any academic year, the amount of the basic grant to which that student is entitled shall be reduced in proportion to the degree to which that student is not so attending on a full-time basis, in accordance with a schedule of reductions established by the Commissioner for the purposes of this division. Such schedule of reductions shall be established by regulations and published in the Federal Register not later than February 1 of each year.

(B)(i) The amount of a basic grant to which a student is entitled under this subpart for any academic year shall not exceed 50 per centum of the actual cost of attendance at the institution at which the student is in attendance for that year.

(ii) No basic grant under this subpart shall exceed the difference between the expected family contribution for a student and the actual cost of attendance at the institution at which that student is in attendance. If with respect to any student, it is determined that the amount of a basic grant plus the amount of the expected family contribution for that student exceeds the actual cost of attendance for that year, the amount of the basic grant shall be reduced until the combination of expected family contribution and the amount of the basic grant does not exceed the actual cost of attendance at such institution.

(iii) No basic grant shall be awarded to a student under this subpart if the amount of that grant for that student as determined under this paragraph for any academic year is less than $200. Pursuant to criteria established by the Commissioner by regulation, the institution of higher education at which a student is in attendance may award a basic grant of less than $200 upon a determination that the amount of the basic grant for that student is less than $200 because of the requirement of division (i) and that, due to exceptional circumstances, this reduced grant should be made in order to enable the student to benefit from postsecondary education.

(iv) For the purpose of this subparagraph and subsection (b) the term "actual cost of attendance" means, subject to regulations of the Commissioner, the actual per-student charges for tuition, fees, room and board (or expenses related to reasonable commuting), books, and an allowance for such other expenses as the Commissioner determines by regulation to be reasonably related to attendance at the institution at which the student is in attendance.

(3)(A)(i) Not later than February 1 of each year the Commissioner shall publish in the Federal Register a schedule of expected family contributions for the succeeding academic year for various levels of family income, which, except as is otherwise provided in division (ii), together with any amendments thereto, shall become effective July 1 of that year. During the thirty-day period following such publication the Commissioner shall provide interested parties with an opportunity to present their views and make recommendations with respect to such schedule.

(ii) The schedule of expected family contributions required by division (i) for each academic year shall be submitted to the President of the Senate and the Speaker of the House of Representatives not later than February 1 of that year. If either the Senate or the House of Representatives adopts, prior to May 1 of such year, a resolution of disapproval of such schedule, the Commissioner shall publish a new schedule of expected family contributions in the Federal Register not later than fifteen days after the adoption of such resolution of disapproval. Such new schedule shall take into consideration such recommendations as may be made in connection with such resolution and shall become effective, together with any amendments thereto, on July 1 of that year.[7]

(B)(i) For the purposes of this paragraph and subsection (b), the term "family contribution" with respect to any student means the amount which the family of that student may be reasonably expected to contribute toward his postsecondary education for the academic year for which the determination under subparagraph (A) of paragraph (2) is made, as determined in accordance with regulations. In promulgating such regulations, the Commissioner shall follow the basic criteria set forth in division (ii) of this subparagraph.

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[7] The initial family contribution schedule was submitted to the Congress on February 1, 1973. A resolution of disapproval, H. Res. 204, was introduced on February 7, and, after hearings, the subcommittee of reference voted on April 3, 1973, to table the resolution. The Commissioner of Education was so notified. The second family contribution schedule was submitted to the Congress on September 25, 1973. A resolution of disapproval, H. Res. 563, was introduced on the same day, and, after hearings, the Special Subcommittee on Education voted to table the resolution on December 20, 1973 and so advised the Commissioner. Though no resolution was introduced in the Senate, the Senate's Subcommittee on Education, on December 19, did vote not to disapprove of the schedule, and so advised the Commissioner.

(ii) The basic criteria to be followed in promulgating regulations with respect to expected family contributions are as follows:

(I) The amount of the effective income of the student or the effective family income of the student's family.

(II) The number of dependents of the family of the student.

(III) The number of dependents of the student's family who are in attendance in a program of postsecondary education and for whom the family may be reasonably expected to contribute for their postsecondary education.

(IV) The amount of the assets of the student and those of the student's family.

(V) Any unusual expenses of the student or his family, such as unusual medical expenses, and those which may arise from a catastrophe.

(iii) For the purposes of clause (I) of division (ii), the term "effective family income" with respect to a student means the annual adjusted family income, as determined in accordance with regulations prescribed by the Commissioner, received by the parents or guardian of that student (or the person or persons having an equivalent relationship to such student) minus Federal income tax paid or payable with respect to such income.

(iv) In determining the expected family contribution with respect to any student, any amount paid under the Social Security Act to, or on account of, the student which would not be paid if he were not a student, and one-half any amount paid the student under chapters 34 and 35 of title 38, United States Code, shall be considered as effective income for such student.

(C) The Commissioner shall promulgate special regulations for determining the expected family contribution and effective family income of a student who is determined (pursuant to regulations of the Commissioner) to be independent of his parents or guardians (or the person or persons having an equivalent relationship to such student). Such special regulations shall be consistent with the basic criteria set forth in division (ii) of subparagraph (B).

(4)(A) The period during which a student may receive basic grants shall be the period required for the completion of the undergraduate course of study being pursued by that student at the institution at which the student is in attendance, except that such period may not exceed four academic years unless—

(i) the student is pursuing a course of study leading to a first degree in a program of study which is designed by the institution offering it to extend over five academic years; or

(ii) the student is, or will be, unable to complete a course of study within four academic years because of a requirement of the institution of such course of study that the student enroll in a noncredit remedial course of study;

in either which case such period may be extended for not more than one additional academic year.

(B) For the purposes of clause (ii) of subparagraph (A), a "noncredit remedial course of study" is a course of study for which no credit is given toward an academic degree, and which is designed to increase the ability of the student to engage in an undergraduate course of study leading to such a degree.

(b)(1) The Commissioner shall from time to time set dates by which students must file applications for basic grants under this subpart.

(2) Each student desiring a basic grant for any year must file an application therefor containing such information and assurances as the Commissioner may deem necessary to enable him to carry out his functions and responsibilities under this subpart.

(3)(A) Payments under this section shall be made in accordance with regulations promulgated by the Commissioner for such purpose, in such manner as will best accomplish the purposes of this section.

(B)(i) If, during any period of any fiscal year, the funds available for payments under this subpart are insufficient to satisfy fully all entitlements under this subpart, the amount paid with respect to each such entitlement shall be—

(I) in the case of any entitlement which exceeds $1,000, 75 per centum thereof;

(II) in the case of any entitlement which exceeds $800 but does not exceed $1,000, 70 per centum thereof;

(III) in the case of any entitlement which exceeds $600 but does not exceed $800, 65 per centum thereof; and

(IV) in the case of any entitlement which does not exceed $600, 50 per centum thereof.

(ii) If, during any period of any fiscal year, funds available for making payments under this subpart exceed the amount necessary to make the payments prescribed in division (i), such excess shall be paid with respect to each entitlement under this subpart in proportion to the degree to which that entitlement is unsatisfied, after payments are made pursuant to division (i).

(iii) In the event that, at the time when payments are to be made pursuant to this subparagraph (B), funds available therefor are insufficient to pay the amounts set forth in division (i), the Commissioner shall pay with respect to each entitlement an amount which bears the same ratio to the appropriate amount set forth in division (i) as the total amount of funds so available at such time for such payments bears to the amount necessary to pay the amounts indicated in division (i) in full.

(iv) No method of computing or manner of distribution of payments under this subpart shall be used which is not consistent with this subparagraph.

(v) In no case shall a payment under this subparagraph be made if the amount of such payment after application of the provisions of this subparagraph is less than $50.

(C)(i) During any fiscal year in which the provisions of subparagraph (B) apply, a basic grant to any student shall not exceed 50 per centum of the difference between the expected family contribution for that student and the actual cost of attendance at the institution in which the student is enrolled, unless sums available for making payments under this subsection for any fiscal year equal more than 75 per centum of the total amount to which all students are entitled under this subpart for that fiscal year, in which case no basic grant shall exceed 60 per centum of such difference.

(ii) The limitation set forth in division (i) shall, when applicable, be in lieu of the limitation set forth in subparagraph (B)(i) of subsection (a)(2).

(4) No payments may be made on the basis of entitlements established under this subpart during any fiscal year ending prior to July 1, 1975, in which—

(A) the appropriation for making grants under subpart 2 of this part does not at least equal $130,093,000; and

(B) the appropriation for work-study payments under section 441 of this titles does not at least equal $237,400,000; and

(C) the appropriation for capital contributions to student loan funds under part E of this title does not at least equal $286,000,000.

(20 U.S.C. 1070a) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 247–251.

Subpart 2—Supplemental Educational Opportunity Grants

PURPOSE; APPROPRIATIONS AUTHORIZED

SEC. 413A. (a) It is the purpose of this subpart to provide, through institutions of higher education, supplemental grants to assist in making available the benefits of postsecondary education to qualified students who, for lack of financial means, would be unable to obtain such benefits without such a grant.

(b)(1) For the purpose of enabling the Commissioner to make payments to institutions of higher education which have made agreements with the Commissioner in accordance with section 413C(b), for use by such institutions for payments to undergraduate students for the initial academic year of a supplemental grant awarded to them under this subpart, there are authorized to be appropriated $200,000,000 for the fiscal year ending June 30, 1973, and for each of the succeeding fiscal years ending prior to July 1, 1975. Funds appropriated pursuant to this paragraph shall be appropriated separate from any funds appropriated pursuant to paragraph (2).

(2) In addition to the sums authorized to be appropriated by paragraph (1), there are authorized to be appropriated such sums as may be necessary for payment to institutions of higher education for use by such institutions for making continuing supplemental grants under this subpart, except that no appropriation may be made pursuant to this paragraph for any fiscal year beginning more than three years after the last fiscal year for which an appropriation is authorized under paragraph (1). Funds appropriated pursuant to this paragraph shall be appropriated separate from any funds appropriated pursuant to paragraph (1).

(3) Sums appropriated pursuant to this subsection for any fiscal year shall be available for payments to institutions until the end of the fiscal year succeeding the fiscal year for which they were appropriated.

(4) For the purposes of this subsection, payment for the first year of a supplemental grant shall not be considered as an initial year payment if the grant was awarded for the continuing education of a student who—

(A) had been previously awarded a supplemental grant under this subpart (whether by another institution or otherwise), and

(B) had received payment for any year of that supplemental grant.

(20 U.S.C. 1070b) Enacted June 23, 1972, P.L. 92-318, sec. 131(b)(1), 86 Stat. 251, 252.

AMOUNT AND DURATION OF GRANTS

SEC. 413B. (a)(1) From the funds received by it for such purpose under this subpart, an institution which awards a supplemental grant to a student for an academic year under this subpart shall, for such year, pay to that student an amount determined pursuant to paragraph (2).

(2)(A)(i) The amount of the payment to any students pursuant to paragraph (1) shall be equal to the amount determined by the institution to be needed by that student to enable him to pursue a course of study at the institution, except that such amount shall not exceed—

(I) $1,500, or

(II) one-half the sum of the total amount of student financial aid provided to such student by such institution,

whichever is the lesser.

(ii) No student shall be paid during all the academic years he is pursuing his undergraduate course of study at one or more institutions of higher education in excess of $4,000 or in the case of any student to whom the provisions of subsection (b)(1)(B) apply, $5,000.

(iii) For the purposes of clause (II) of division (i), the term "student financial aid" includes assistance payments to the student under subpart 1 of this part and parts C and E of this title, and any assistance provided to a student under any scholarship program established by a State or a private institution or organization, as determined in accordance with regulations, shall be deemed to be aid provided such student by the institution.

(B) If the amount determined under division (i) of subparagraph (A) with respect to a student for any academic year is less than $200, no payment shall be made to that student for that year.

(C) Subject to subparagraphs (A) and (B), the Commissioner shall prescribe, for the guidance of institutions, basic criteria and schedules for the determination of the amount of need to be determined under division (i) of subparagraph (A). Such criteria and schedules shall take into consideration the objective of limiting assistance under this subpart to students of financial need, and such other factors related to determining the need of students for financial assistance as the Commissioner deems relevant but such criteria or schedules shall not disqualify an applicant on account of his earned income if income from other sources in the amount of such earned income would not disqualify him.

(b)(1)(A) A student eligible for a supplemental grant may be awarded such a grant under this subpart for each academic year of the period required for completion by the recipient of his undergraduate course of study in the institution of higher education from which he received such grant.

(B) A student may not receive supplemental grants under this subpart for a period of more than four academic years, except that in the case of a student—

(i) who is pursuing a course of study leading to a first degree in a program of study which is designed by the institution offering it to extend over five academic years, or

(ii) who is because of his particular circumstances determined by the institution to need an additional year to complete a course of study normally requiring four academic years,

such period may be extended for not more than one additional academic year.

(2) A supplemental grant awarded under this subpart shall entitle the student to whom it is awarded to payments pursuant to such grant only if—

(A) that student is maintaining satisfactory progress in the course of study he is pursuing, according to the standards and practices of the institution awarding the grant, and

(B) that student is devoting at least half-time to that course of study, during the academic year, in attendance at that institution.

Failure to be in attendance at the institution during vacation periods or periods of military service, or during other periods during which the Commissioner determines, in accordance with regulations, that there is good cause for his nonattendance, shall not render a student ineligible for a supplemental grant; but no payments may be made to a student during any such period of failure to be in attendance or period of nonattendance.

(20 U.S.C. 1070b–1) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 252, 253.

SELECTION OF RECIPIENTS; AGREEMENTS WITH INSTITUTIONS

SEC. 413C. (a)(1) An individual shall be eligible for the award of a supplemental grant under this subpart by an institution of higher education which has made an agreement with the Commissioner pursuant to subsection (b), if the individual makes application at the time and in the manner prescribed by that institution, in accordance with regulations of the Commissioner.

(2) From among those who are eligible for supplemental grants through an institution which has an agreement with the Commissioner under subsection (b) for each fiscal year, the institution shall, in accordance with such agreement under subsection (b), and within the amount allocated to the institution for that purpose for that year under section 413D(b) select individuals who are to be awarded such grants and determine, in accordance with section 413B, the amounts to be paid to them. An institution shall not award a supplemental grant to an individual unless it determines that—

(A) he has been accepted for enrollment as an undergraduate student at such institution or, in the case of a student already attending such institution, is in good standing there as an undergraduate;

(B) he shows evidence of academic or creative promise and capability of maintaining good standing in this course of study;

(C) he is of exceptional financial need; and

(D) he would not, but for a supplemental grant, be financially able to pursue a course of study at such institution.

For the purposes of clause (C) of this paragraph, in determining financial need, the expected family contribution shall be considered to be the contribution expected in the specific circumstances of the student as determined by the student financial aid officer at the institution in accordance with criteria promulgated by the Commissioner. Any calulation of the ability of a family to contribute shall include consideration of (i) family assets which should reasonably be available for such purpose, (ii) the number of children in the family, (iii) the number of children attending institutions of higher education, (iv) any catastrophic illness in the family, (v) any educational expenses of other dependent children in the family, and (iv) other circumstances affecting the student's financial need.

(b) An institution of higher education which desires to obtain funds for supplemental grants under this subpart shall enter into an agreement with the Commissioner. Such agreement shall—

(1) provide that funds received by the institution under this subpart will be used by it solely for the purposes specified in, and in accordance with, the provisions of this subpart and of section 463;

(2) provide that, in determining whether an individual meets the requirements of clause (C) of paragraph (2) of subsection (a), the institution will—

(A) consider the source of such individual's income and that of any individual or individuals upon whom he relies primarily for support, and

(B) make appropriate review of the assets of the student and of such individuals;

(3) provide that the institution, in cooperation with other eligible institutions where appropriate, will make vigorous efforts to identify qualified youths of exceptional financial need, and to encourage them to continue their education beyond secondary school through such programs and activities as—

(A) establishing or strengthening close working relationships with secondary school principals and guidance and counseling personnel, with a view toward motivating students to complete secondary school and to pursue postsecondary school educational opportunities, and

(B) making, to the extent feasible, conditional commitments for student financial aid by such institution to qualified secondary school students, who but for such grants would be unable to obtain the benefits of higher education, with special emphasis on students enrolled in grade 11 or lower grades who show evidences of academic or creative promise;

(4) provide that the institution will meet the requirements of section 464;

(5) include provisions designed to make grants under this subpart reasonably available, to the extent of available funds, to all eligible students in attendance at the institution;

(6) include such other provisions as may be necessary to protect the financial interest of the United States and promote the purposes of this subpart.

(20 U.S.C. 1070b–2) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat 253, 254.

APPORTIONMENT AND ALLOCATION OF FUNDS

SEC. 413D. (a)(1)(A) From 90 per centum of the sums appropriated pursuant to section 413A(b)(1) for any fiscal year, the Commissioner shall apportion to each State an amount which bears the same ratio to such sums as the number of persons enrolled full-time and the full-time equivalent of the number of persons enrolled part time in institutions of higher education in such State bears to the total number of such persons in all the States. The remainder of the sums so appropriated shall be apportioned among the States by the Commissioner in accordance with equitable criteria which he shall establish and which shall be designed to achieve a distribution of the sums so appropriated among the States which will most effectively carry out the purpose of this subpart, except that where any State's apportionment under the first sentence for a fiscal year is less than its allotment under the first sentence of section 401(b) of this Act for the fiscal year ending June 30, 1972, before he makes any other apportionments under this sentence, the Commissioner shall apportion sufficient additional sums to such State under this sentence to make the State's apportionment for that year under this paragraph equal to its allotment for the fiscal year ending June 30, 1972, under such first sentences. Sums apportioned to a State under the preceding sentence shall be consolidated with, and become a part of, its apportionment from the same appropriation under the first sentence of this paragraph.

(B) If the Commissioner determines that the sums apportioned to any State under subparagraph (A) for any fiscal year exceed the aggregate of the amounts that he determines to be required under subsection (b) for that fiscal year for institutions of higher education in that State, the Commissioner shall reapportion such excess, from time to time, on such date or dates as he shall fix, to other States in such manner as the Commissioner determines will best assist in achieving the purposes of this subpart.

(2) Sums appropriated pursuant to section 413A(b)(2) for any fiscal year shall be apportioned among the States in such manner as the Commissioner determines will best achieve the purposes for which such sums were appropriated.

(b)(1)(A) The Commissioner shall, from time to time, set dates before which institutions in any State must file applications for allocation, to such institutions, of supplemental grant funds from the apportionment to that State (including any reapportionment thereto) for any fiscal year pursuant to subsection (a)(1).

(B)(i) From the sums apportioned (or reapportioned) to any State, the Commissioner shall allocate amounts to institutions which have submitted applications pursuant to subparagraph (A).

(ii) Allocations under division (i) by the Commissioner to such institutions shall be made in accordance with equitable criteria established by the Commissioner by regulation. Such criteria shall be designed to achieve such distribution of supplemental grant funds among such institutions within a State as will most effectively carry out the purposes of this subpart.

(2) The Commissioner shall, in accordance with regulations, allocate to such institutions in any State, from funds apportioned or reapportioned pursuant to subsection (a)(2), funds to be used as the supplemental grants specified in section 413A(b)(2).

(3) Payments shall be made from allocations under this subsection as needed.

(20 U.S.C. 1070b–3) Enacted June 23, 1972, P.L. 92–318, sec. 131(b)(1), 86 Stat. 254, 255.

Mr. O'HARA. The major presentation on the supplemental educational opportunity grants will be given by our most popular witness and persistent guest, Acting Associate Commissioner, John Phillips.

I also suggested that he might want to take the opportunity to make a progress report assuming there is progress to report on the BOG program. I see that Peter Voigt is present to do that for us.

Gentlemen, proceed as you see fit.

STATEMENT OF DR. JOHN D. PHILLIPS, ACTING ASSOCIATE COMMISSIONER FOR STUDENT ASSISTANCE, BUREAU OF POSTSECONDARY EDUCATION, U.S. OFFICE OF EDUCATION, ACCOMPANIED BY CHARLES M. COOKE, JR., DEPUTY ASSISTANT SECRETARY FOR LEGISLATION, EDUCATION; PETER K. U. VOIGT, DIRECTOR, DIVISION OF BASIC GRANTS, BUREAU OF POSTSECONDARY EDUCATION; DR. LEONARD H. O. SPEARMAN, DIRECTOR, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS; RICHARD ROWE, DEPUTY DIRECTOR, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS; HUBERT S. "BILL" SHAW, CHIEF, PROGRAM DEVELOPMENT BRANCH, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS

Dr. PHILLIPS. Mr. Chairman, I would like to introduce my colleagues. In addition to Peter Voigt, director of the basic grants division, we have here today Dr. Leonard Spearman, director of the division of student support and special programs, Dick Rowe, the deputy director of that division and Bill Shaw, who is the Chief of the program development branch within that division. They are here to answer specific questions relative to the supplemental educational opportunity grant program.

Mr. Chairman and members of the subcommittee: We are most pleased to appear before you today to discuss the grant component of Federal student assistance programs: The basic educational opportunity grant program and the supplemental educational opportunity grant program.

With reference to the basic grant program we are planning to submit the family contribution schedules for 1975–76 to you in early July of this year, with the hope and expectation that you will call hearings and complete your review of this matter during the summer months.

Since these hearings will deal in some detail with many of the operational aspects of the basic grant program, it is our belief that discussion of this program would best be delayed until the hearings on the family contribution schedules.

We are, however, providing you with a relief summary of the current status of the basic grant program, together with detailed materials concerning operation of the Supplemental Educational Opportunity Grant program.

The following statement is intended to provide only a brief overview. However, we would also be happy to respond to questions from committee members who might wish to expand upon this written statement.

The timely action by your committee and the Congress on the Basic Grant Family Contribution Schedules for 1974–75 permitted us to significantly accelerate the timing of the basic grant program for this coming academic year.

As a result of your early action, we were able to begin the distribution of the basic grant application materials in the middle of March and to complete this distribution by the end of March.

Supplies of forms were sent to all of the high schools in the country and to all of the 5,300 postsecondary institutions which are currently eligible to participate in the basic grant program.

To insure the availability of information to students on basic grants, we have also made direct mailings to potential basic grant recipients through some State scholarship agencies as well as the major need analysis services.

In addition, in order to make the basic grant applications available during summer, when most high schools and many postsecondary institutions will not be open, we have distributed a supply of application materials to all public libraries and student special services project sites in the country.

As with any new Federal program, a great deal of information regarding available assistance for meeting educational costs must be provided to students, their parents, and to persons in a position to counsel students enrolled in postsecondary education.

Therefore, we have awarded a contract for the training of both high school guidance counselors and personnel in postsecondary institutions who will be involved in the operation of the basic grant program.

Over 600 sessions for secondary guidance personnel were conducted between early April and mid-May and we estimate that over 50 percent of the high schools in the country were involved.

Those institutions which were not represented in the training sessions will receive the basic grant informational materials through a direct contact followup effort. The sessions designed to train personnel in postsecondary institutions are nearing completion and we estimate that over 90 percent of the eligible institutions have been represented in the workshops.

We believe that these sessions will prove to be of great benefit to institutions and, ultimately, to students, and that the information provided in the sessions will greatly facilitate the operation of the basic grant program in the 1974–75 academic year.

To further insure that students and parents are aware of the availability of the basic grant program, we have prepared materials for radio, television, and the print media designed to inform students and encourage them to apply for their entitlements.

These materials have been mailed to all of the radio and television stations in the country and we are currently in the process of providing additional news releases and other appropriate information.

On May 13 we issued the payment schedule to all eligible institutions for the coming academic year. This schedule, of course, takes into account the provisions of the legislation and provides institutions with the awards to be made to students based on the student's expected family contribution and the cost of attendance.

In issuing this schedule, we have taken a conscious risk of overexpenditure in that we have assumed that approximately 62 percent of the eligible student population will actually participate in the program for the coming year, and this participation rate could, of course, run to a higher figure.

However, this decision has made it possible to raise the maximum grant award from $800 to $1,050, and the estimated average award from $475 to $680; and we believe these award levels will significantly increase the impact of the basic grant program in 1974–75.

The payment schedule was issued without benefit of a final congressional resolution on the question of carrying over unexpended fiscal year 1973 funds to the 1974–75 academic year. In light of the many difficulties which would surely result for both students and institutions if we were to issue a second revised payment schedule should the carryover authority be provided, the payment scheduled assumed a greater risk of overexpenditure than might normally be taken.

Since the authority to permit the carryover has now passed the Conference Committee, the risk of over expenditure for the 1974–75 academic year is expected to be significantly reduced.[1]

As a result of all of these efforts, the application flow during the past 2 months has been significant. To date, we have received about half a million applications and the rate of receipt appears to be constant at approximately 10,000 a day.

At this date last year, not a single application had been received, and already we have received more applications than were submitted during all of last year. It should also be noted that approximately 55 percent of the applications are from students who do qualify for basic grant assistance.

In summary, we are most pleased by the progress made in implementing the program for the 1974–75 academic year, and hope that early submission and congressional approval of the family contribution schedules will permit even greater improvements for the 1975–76 academic year.

This concludes my comments on the current status of the basic grant program. If the members of the subcommittee have no objection, I would like to move directly into an overview of the supplemental educational opportunity grant program.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
Washington, D.C.

DEAR COLLEAGUE: As you may be aware, application forms for the Basic Educational Opportunity Grant Program for the 1974–75 academic year are now being processed. To date we have received about 300,000 applications and students are now being notified of their eligibility status.

You will, therefore, soon be receiving Student Eligibility Reports submitted to you for calculation of preliminary Basic Grant awards. Of course, before you are able to make these calculations you will need to know the allowable cost of attendance for the Basic Grant Program and have the 1974–75 Payment Schedule.

While we recognize the need to provide you with these materials as early as possible, we have delayed doing so until this time because we were waiting for a decision to be made regarding unexpended Fiscal Year 1973 funds.

The authorizing legislation for the Basic Grant Program specifies that in the event that all funds appropriated for a given fiscal year are not used, the unexpended funds will be redistributed to all Basic Grant recipients in that year.

We believe, and think you will agree, that making supplemental payments to students for an academic year which has already ended, is not the most effective use of these funds. Therefore, we have asked Congress for the authority to carry these funds over to the subsequent academic year and add them to the funds appropriated for that year.

While Congressional response appears to be favorable on this issue, the legislative process is a deliberate one and we have not received this carry-over authority.

The enclosed Payment Schedule, therefore, is based on the $475 million appropriated for the Basic Educational Opportunity Grant Program for the 1974–75 academic year. As you will note, the maximum award for the 1974–75 academic year is $1050 which means that the awards have reached the "scheduled reduction" level specified in the law.

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[1] Carryover authority subsequently became law as part of Public Law 93–305.

In developing this Payment Schedule, we have made a number of assumptions which entail a significant degree of risk of over-expenditure of funds in 1974–75. Should the authority to carry over unexpended 1973 funds be granted, the degree of risk we are assuming in issuing this Payment Schedule will be reduced. Please be assured that the award levels indicated on the Payment Schedule will be honored for the 1974–75 academic year without regard to Congressional action on the carry-over provision.

There are a number of points on the Payment Schedule which must be noted:

1. The allowable costs of attendance have been revised since the 1973–74 academic year. Please be sure that the *new* allowable costs are used in calculating a student's Preliminary Award. These new allowable costs are as follows:

(1) Tuition and fees. The amount charged the student for tuition and fees that is generally charged to all students or that is generally charged to a particular class of students of which the applicant student is a member.

(2) Room and board. (i) The actual amount charged by the institution pursuant to a contract entered into with the student under which both room and board are provided by the institution; or,

(ii) The actual amount charged by the institution pursuant to such a contract entered into for room but not board, plus an allowance of $625; or,

(iii) The actual amount charged by the institution pursuant to such a contract entered into for board but not room, plus an allowance of $475; or,

(iv) Where no such contract is entered into for either room or board, an allowance of $1100.

(3) Books, supplies, and miscellaneous expenses. An allowance of $400.

It is especially important to note that there is no longer a distinction made between students who live off-campus with their parents and students living off-campus who do not live with their parents. In both cases, the allowance for room and board is $1100.

2. With a few specific exceptions, all students will have a minimum cost of attendance of $1500 ($1100 living allowance and $400 book, supply, and miscellaneous allowance). Students who are attending tuition-free institutions with no on-campus living facilities are still provided the $1500 minimum allowance.

3. The maximum total cost of attendance which affects the amount of a student's Basic Grant is $2100. This means that costs of attendance which exceed $2100 will not affect the amount of a Basic Grant a student may receive due to the "one-half need" limitation specified in the law.

We appreciate your continued support and assistance in making Basic Grant assistance available to students. If you have any questions regarding the Payment Schedule or its use, please do not hesitate to contact us.

Sincerely,

PETER K. U. VOIGT,
Director, Division of Basic Grants.

Enclosure.

BASIC EDUCATIONAL OPPORTUNITY GRANTS PAYMENT SCHEDULE AWARDS FOR 1974-75 ACADEMIC YEAR—STUDENT ELIGIBILITY INDEX

Cost of education	0 to 0	1 to 50	51 to 100	100 to 151	151 to 200	201 to 250	251 to 300	301 to 350	351 to 400	401 to 450	451 to 500	501 to 550	551 to 600
$1,000 to $1,049	512	500	476	450	426	400	376	350	326	300	276	250	226
$1,050 to $1,099	538	526	500	476	450	426	400	376	350	326	300	276	250
$1,100 to $1,149	562	550	526	500	476	450	426	400	376	350	326	300	276
$1,150 to $1,199	588	576	550	526	500	476	450	426	400	376	350	326	300
$1,200 to $1,249	612	600	576	550	526	500	476	450	426	400	376	350	326
$1,250 to $1,299	635	626	600	576	550	526	500	476	450	426	400	376	350
$1,300 to $1,349	662	650	626	600	576	550	526	500	476	450	426	400	376
$1,350 to $1,399	688	676	650	626	600	576	550	526	500	476	450	426	400
$1,400 to $1,449	712	700	676	650	626	600	576	550	526	500	476	450	426
$1,450 to $1,499	738	726	700	676	650	626	600	576	550	526	500	476	450
$1,500 to $1,549	762	750	726	700	676	650	626	600	576	550	550	625	500
$1,550 to $1,599	788	776	750	726	700	676	650	626	600	576	526	500	476
$1,600 to $1,649	812	800	776	750	726	700	676	650	626	600	576	550	526
$1,650 to $1,699	838	826	800	776	750	726	700	676	650	626	600	576	550
$1,700 to $1,749	862	850	826	800	776	750	726	700	676	650	626	600	576
$1,750 to $1,799	888	876	850	826	800	776	750	726	700	676	648	612	578
$1,800 to $1,849	912	900	876	850	826	800	776	750	726	682	648	612	578
$1,850 to $1,899	938	926	900	876	850	826	800	776	750	682	648	612	578
$1,900 to $1,949	962	950	926	900	875	850	826	800	768	682	648	612	478
$1,950 to $1,999	988	976	950	926	900	876	844	806	768	682	648	612	578
$2,000 to $2,049	1,012	1,000	976	950	918	882	844	806	768	682	648	612	578
$2,050 to $2,099	1,038	1,026	994	956	918	882	844	806	786	682	648	612	578
$2,100 plus	1,050	1,032	994	956	918	882	844	806	768	682	648	612	578

	601 to 650	651 to 700	701 to 750	751 to 800	801 to 850	851 to 900	901 to 950	951 to 1,000	1,001 to 1,050	1,051 to 1,100	1,100 to 1,150	1,151 to 1,200	1201 plus
$1,000 to $1,049	200	176	150	126	100	76	50	0	0	0	0	0	0
$1,050 to $1,099	226	200	176	150	126	100	76	50	0	0	0	0	0
$1,100 to $1,149	250	226	200	176	150	126	100	76	50	0	0	0	0
$1,150 to $1,199	276	250	226	200	176	150	126	100	76	60	0	0	0
$1,200 to $1,249	300	276	250	226	200	176	150	126	100	76	50	0	0
$1,250 to $1,299	326	300	276	250	226	200	176	150	126	100	76	50	0
$1,300 to $1,349	350	326	300	276	250	226	200	176	150	126	100	76	0
$1,350 to $1,399	376	350	326	300	276	250	226	200	176	150	126	100	0
$1,400 to $1,449	400	376	350	326	288	262	238	212	188	162	138	112	0
$1,450 to $1,499	426	400	376	350	288	262	238	212	188	162	138	112	0
$1,500 to $1,549	450	426	400	376	288	262	238	212	188	162	138	112	0
$1,550 to $1,599	476	450	426	400	288	262	238	212	188	162	138	112	0
$1,600 to $1,649	500	472	438	406	288	262	238	212	188	162	138	112	0
$1,650 to $1,699	504	472	438	406	288	262	238	212	188	162	138	112	0
$1,700 to $1,749	504	472	438	405	288	262	138	212	188	162	138	112	0
$1,750 to $1,799	504	472	438	406	288	262	238	212	188	162	138	112	0
$1,800 to $1,849	504	472	438	406	288	262	238	212	188	162	138	112	0
$1,850 to $1,899	504	472	438	406	288	262	238	212	188	162	138	112	0
$1,900 to $1,949	504	472	438	406	288	262	238	212	188	162	138	112	0
$1,950 to $1,999	504	472	438	406	288	262	238	212	188	162	138	112	0
$2,000 to $2,049	504	472	438	406	288	262	238	212	188	162	138	112	0
$2,050 to $2,099	504	472	438	406	288	262	238	212	188	162	138	112	0
$2,100 plus	504	472	438	406	288	262	238	212	188	162	138	112	0

Mr. Dellenback. May I ask one question at this time? On page 4 of your statement, Dr. Phillips, you talk about raising the maximum grant award from $800 to $1,050. What was the base of that $800? Was that what was actually used as the maximum in the year, or was that something else?

Mr. Voigt. That was based on a higher expected participation rate than the 62 percent. As you decrease the participation rate you obviously decrease the population and that permits you to make larger awards to those in the population.

Mr. Dellenback. So it is not the raising of the maximum grant that was actually awarded in the year that has just been concluded, it is an increase in the expected maximum grant that you had first contemplated for the 1974–75 fiscal year?

Mr. Voigt. That is right.

Mr. Dellenback. That is what I understood to be the case and what I felt ought to be clear for the record. The same thing is true for the estimated average award; you are not talking about raising what was actually the 1973–74 experience but you are talking about raising the estimates for the 1974–75 from when they had first been contemplated to what you now estimate.

Mr. Voigt. That is exactly right.

Mr. Dellenback. I thought it was important that be clear for the record.

Mr. Voigt. As you remember, the maximum award in the 1973–74 year was only $452.

Mr. Dellenback. The average was about $260.

Mr. Voigt. The average was about $260, so it is a significant difference.

Mr. Dellenback. Thank you, Mr. Chairman.

Dr. Phillips. Although SEOG is a new program authorized by the 1972 amendments to complete the new grant component, it is in many respects an extension of the old educational opportunity grants program, and it may be useful to describe SEOG in the context of the old EOG program.

The EOG program was authorized under title IV, part A, of the Higher Education Act of 1965 and amended by the Higher Education Amendments of 1968. The purpose of this program was to provide, through institutions of higher education, educational opportunity grants to assist in making available the benefits of higher education to qualified high school graduates of exceptional financial need, who, for lack of financial means of their own or of their families, would be unable to obtain such benefits without such aid.

From 1966 through 1973 the EOG program served as the grant aid component of the three-part campus-based Federal student assistance programs—NDSL, college work-study, and EOG. Its role was simply to make resources available to institutions to aid needy students.

It should be mentioned here that an important part of the EOG statute authorized the educational talent search program designed to complement the institutional effort in identifying potential EOG recipients.

The amendments of 1968 added the Special Services Program for Disadvantaged Student and Upward Bound to the educational talent search authority. Testimony will be presented on these programs at a later date.

The effective date of the new supplemental educational opportunity grants program was July 1, 1973, utilizing the appropriation for fiscal year 1973.

This forward funding feature also applies to basic grants, national direct student loans, and college work-study. In this first year of operation only initial year grants were funded. The fiscal year 1974 appropriation provides for both initial and continuing year awards.

Institutions of higher education are authorized to make supplemental grants to undergraduates who are enrolled on at least a half-time basis. The amount of a grant may not exceed $1,500 or one-half the sum of the student financial aid provided by the institution, whichever is the lesser amount.

The minimum grant is $200 per academic year. Normally, the period of payments may not exceed 4 years, although that period may be extended for 1 year if circumstances require a 5th year of study to complete an undergraduate study program. The total grant payments may not exceed $4,000 or $5,000, depending on whether the duration of the grant is 4 years or 5 years, respectively.

Unlike the required institutional contribution of 10 percent for NDSL and 20 percent for college work-study, the amount of an SEOG grant to the student must be matched 50–50 with other eligible funds.

Such matching funds can include NDSL, CWS, basic grant, scholarship assistance provided by States, private institutions or organizations, as well as institutional assistance.

In order to qualify for the SEOG program, the amendments stipulate that students must be of "exceptional financial need," who but for the grant, would be unable to attend the institutions of their choice.

While the statute does not define exceptional financial need, the proposed rules which were published in the Federal Register on March 6, 1974, define that term as the condition of a student whose expected family contribution does not exceed one-half the cost of attendance at the institution where the student enrolls.

The need for a supplemental grant is therefore directly tied to the cost of attendance at the institution of the student's choice and his lack of financial means to enroll in that institution.

The statute also stipulates that an institution participating in the SEOG program should make a vigorous effort to identify qualified young people of exceptional need and to encourage them to continue in postsecondary education.

Developing programs with secondary school personnel to motivate such students, and, where feasible, making conditional commitments to students in grade 11 or lower, are specific means by which institutions are authorized to augment the purposes of the SEOG program.

To assist with program operation the statute makes it possible for an institution to withdraw from its Federal allocation an amount of up to 3 percent of its grant expenditures as a payment in lieu of reimbursement for administrative expenses.

The total amount to be withdrawn from SEOG, NDSL, and CWS funds for this purpose may not exceed $125,000 per fiscal year at any institution.

Another general provision contained in the Education Amendments of 1972 gives the financial aid officer flexibility in administering the

SEOG and college work-study programs. An amount of up to 10 percent of the allocation for SEOG or CWS for any fiscal year may be transferred to the other program, at the discretion of the institution, for use during the same fiscal year. The result is that the aid officer is able to "package" the individual student's assistance consistent with his need.

Finally, the amendments also require any recipient of a supplemental grant to file an affidavit of educational purpose. Such a statement affirms that grant payments will be used solely for expenses related to attendance at the institution awarding the grant.

B. THE OPERATION OF THE SUPPLEMENTARY EDUCATIONAL OPPORTUNITY GRANTS PROGRAM

The supplemental educational opportunity grants program is currently administered under agreements between the U.S. Commissioner of Education and 2,872 participating institutions of postsecondary education.

Under the terms of the agreement, the institutions are responsible for all steps leading to making grants to students. These steps include recruitment of students, determination of need, and proper packaging of the grant with the matching equivalent. It is estimated that as many as 6,000 institutions may be eligible to participate in the program.

Institutions annually submit an application for funds to operate the supplemental educational opportunity grants program in the upcoming fiscal year. These applications—which are part of a tripartite application covering the three campus-based student financial aid programs—are submitted to the appropriate regional offices of education, where they are reviewed by panels of experts in student financial aid.

The regional panels recommend to the appropriate regional director of postsecondary education a recommended funding level for initial year awards for each institution. After the regional director of postsecondary education reviews these recommendations, a notice of recommended funding levels is sent to each institution.

There is an opportunity for an institution to appeal the first review group's decisions to a regional appeal group and subsequently to a national appeal panel. After all the recommended funding levels are established the amounts recommended for initial year awards and for continuing year awards are totalled by State.

You will have to excuse me. This is a little complicated but, in fact, it is a statement of the statute and it is important to have all of it in mind.

The appropriation for initial year funds is divided among the States according to statutory formula, which specifies that 90 percent of the funds shall be allotted among the States in such a manner that each State's proportionate share of the amount so alloted is equal to its proportionate share of the national full-time enrollment and the full-time equivalent of part-time enrollment in institutions of higher education.

The remaining 10 percent is first used to raise each State to at least the level of its original allotment—prior to reallotment—for initial year funds for fiscal year 1972 under the former EOG program, if its allotment from the 90-percent portion is less than that level.

If the 10 percent portion is insufficient to bring all States to at least the level of their original allotments for fiscal year 1972, the regulatory procedure established by the Commissioner is to raise all States whose allotment from the 90 percent is less than their fiscal year 1972 allotment to a uniform minimum percentage of their fiscal year 1972 allotment.

The regulatory procedure for distribution of any remaining funds is to distribute them to the State or States in which the allotments made thus far constitute the lowest percentages fundable of the aggregate panel recommendation.

The regulatory procedure established for allotment of continuing year funds is to divide the amount available for continuing year funds by the aggregate national amount recommended for continuing year funds, to determine a uniform national percentage for continuing year funds.

This is the one exception of all the campus-based programs to the State allotment formulae.

The initial-year allocations for the institutions in each State are then determined by multiplying each institution's recommended amount for initial year funds by the final initial year percentage fundable for that State, so that all institutions within a State receive the same pro rata share of their panel-recommended amounts.

The continuing year allocations for the institutions in each State are determined by multiplying each institution's recommended amount for continuing year funds by the uniform national percentage fundable.

Institutions submit an annual report of their SEOG program activity to the Office of Education. The report shows the number of initial year and continuing year recipients and the amounts for both types, the amount claimed for administrative expenses, amount transferred to or from CWS, and the amount of matching funds provided to SEOG recipients from various eligible matching sources.

Additionally, statistical information concerning the racial/ethnic distribution; the male/female distribution, and the family income distribution of the grant recipients is collected. To date no performance data are available for the SEOG program because fiscal year 1974 is the first full year of its operation.

Table II shows the demand for the EOG program through fiscal year 1973 and the demand for the SEOG program for fiscal years 1974 and 1975. Basically, demand is the result of numbers of participating institutions, numbers of eligible students, the cost of attendance, and the availability of other student aid resources.

C. EVALUATION OF PROGRAM OPERATIONS

It is too early to evaluate the impact of the SEOG program as a separate program because it is in its first year of operation. However, the experience with the former EOG program does reveal some significant findings.

These findings have been drawn from a variety of sources, including (1) the annual fiscal-operations report submitted by participating institutions, and (2) studies performed under contract with the U.S. Office of Education by the Bureau of Applied Social Research, Columbia University in 1971 and by the American Council on Education in 1974.

The fiscal-operations report submitted annually to the Office of Education has been a rather effective yardstick for determining whether a program is achieving its goals. An analysis of annual fiscal-operations reports through fiscal year 1970 show that:

(1) Over 70 percent of EOG recipients came from families with gross annual incomes under $6,000 including independent students on the basis of their own incomes rather than the income of their families.

(2) Approximately 23 percent of EOG recipients came from minority groups.

(3) NDSL and CWS were major sources of available matching funds for the EOG program.

In a more intensive study of the impact of the EOG program conducted by the Bureau of Applied Social Research at Columbia University, these findings were substantiated and other general conclusions reached. These conclusions are as follows:

(1) The EOG program—through fiscal year 1970—has enabled some students of exceptional financial need to obtain an education beyond high school.

(2) Seventy percent of the recipients came from families with incomes under $6,000.

(3) One-half of the institutions developed special recruitment programs.

(4) The reenrollment rate of EOG freshmen showed little difference from that of other freshmen.

(5) Less than 1 percent of 254,000 students in 1968—69 withdrew for financial reasons.

While these findings help to understand the workings of the EOG program, it would be speculative to draw inferences from them concerning the SEOG program. However, the American Council on Education study did reveal some aspects of the current SEOG operation.

Table IV, which was drawn from that study, presents a comparison of EOG for fiscal year 1973 with estimates of SEOG for fiscal year 1974. Significant in table IV are estimates showing that 65 percent of the recipients are freshmen or sophomores; 85 percent come from familes whose "adjusted gross income" is less than $7,500; the average grant award is $646; and 91 percent of the SEOG recipients received other forms of Federal student aid.

As with our previous presentations to the subcommittee, concerning the college work-study, cooperative education, national direct student loan, guaranteed student loan and state student incentive grant programs, we have tried here to provide the committee with an objective report covering the history, operation and evaluation of the SEOG (EOG) program, and to avoid commenting one way or the other on the comparative merit or value of this program vis-a-vis other legislative authorities for the provision of student assistance.

We are in full agreement with the subcommittee's expressed concern for a reduction of complexity and confusion in student assistance authorities. We applaud the subcommittee's decision to initiate this comprehensive review of the student assistance authorities more than a year before they expire.

And finally, we appreciate the agreement between the subcommittee chairman and the U.S. Commissioner of Education which, from the outset of these hearings, has permitted us to file these informational reports separately and independently from policy considerations.

At this point, Mr. Chairman, I will be pleased to answer questions from members of the subcommittee.

TABLE I.—COMPARISON OF EOG AND SEOG

Factors	EOG	SEOG
Student eligibility	Full-time undergraduate students; high school graduates.	Undergraduates enrolled at least half-time.
Exceptional need	Gross family income below $9,000; expected parental contribution $625 or less.	Expected family contributions less than half of cost of attendance.
Determination of	Consider income and assets of those persons supporting the student and of the student.	Expected family contribution based on these specific items: family income and assets, number of children including those in post-secondary education, catastrophic illness, education expenses for other dependent children, other circumstances affecting need.
Size of grant	Originally the lesser of $800 or ½ aid provided by institution, amended up to $1,000; minimum $200 per year.	The lesser of $1,500 or ½ aid provided by institution; minimum $200 per year; total $4,000 or $5,000 depending on duration.
Duration	4 academic years	4 academic years or 5 if required.
Institutional eligibility	Institutions of higher education, public and private, nonprofit.	Addition of accredited proprietary schools.
Appropriation	Forward funded; specific amounts authorized for initial year grants, such sums as necessary for renewal year grants.	Forward funded; specific amounts authorized initial year grants, such sums as necessary continuing year grants; separate appropriations.
State allotment/EOG	$\frac{\text{State allotment}}{\text{Total appropriation}} = \frac{\text{Full-time enrollees institutions of higher education—State}}{\text{Full-time enrollees—National}}$	
State allotment/SEOG	$\frac{\text{State allotment}}{\text{Total appropriation}} = \frac{\text{Full-time enrollees and full-time equivalent institutions of higher education—State}}{\text{Full-time and full-time equivalent—National}}$	
Allotment of funds States.	100 percent by this formula; Commissioner may reallot excess amounts.	90 percent by this formula, remainder to provide where necessary an allotment equal to that in fiscal year 1972, before any other distribution; Commissioner shall reallot excess amounts.
Matching	Institutional aid, NDSL, CWS, State, and private scholarships.	Same plus basic grant.
Recruitment	Institution shall make vigorous effort to identify and motivate students of exceptional financial need; Talent Search, Upward Bound, special services programs under title IV, pt. A.	Same. Same under subpt. 4.
Maintenance of level of effort.	Based on 3 year average of Institutional aid programs.	Same.
Administrative expenses.	3 percent of expenditure	Same.
Transfer to or from CWS.	Not allowed	10 percent of allocation between CWS and SEOG.

TABLE II.—(SUPPLEMENTAL) EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, FISCAL YEAR [1]

	1967 [2]	1968	1969	1970	1971	1972	1973	1974 [2]	1975
Original request [3]	105,520	124,000	174,000	219,980	244,995	296,000	420,900	555,094	571,246
Recommended funding levels [3]	73,874	115,297	159,884	199,284	220,049	259,084	361,281	468,095	458,814
Federal funds available [3]	57,923	108,772	136,608	144,787	164,600	177,700	210,300	210,300	210,300
Expenditures:									
Initial year [3] [4]	45,879	56,213	60,963	58,752	67,658	69,374	75,800	204,175	97,087
Renewal continuing year [3] [4]		36,038	53,718	74,999	92,042	102,650	128,375		107,087
Administrative expense [3] [4]				3,082	4,900	5,176	6,125	6,125	6,126
Total dollars expended [3] [4]	45,879	92,911	114,581	136,833	164,600	177,700	210,300	210,300	210,300
Number of students:									
Initial year [4]	123,165	132,791	143,302	116,442	123,000	120,500	126,500	304,000	160,000
Renewal continuing year [4]		69,264	111,317	136,979	167,500	176,800	177,000		144,000
Total number students [4]	123,165	202,055	254,619	253,421	290,500	297,300	303,500	304,000	304,000
Average grant per student [4]	373	457	450	528	550	580	670	670	670
Number of institutions	1,383	1,615	1,780	1,950	2,100	2,200	2,302	2,872	3,090
Average award per institution [3]	42	67	77	74	78	80	91	73	68

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[1] Year beginning July 1 and ending June 30—year in which funds are available, regardless of the year for which appropriated.

[2] In 1st year of EOG program (fiscal year 1967) and 1st year of SEOGP (fiscal year 1974), all awards were initial year awards.

[3] Thousands of dollars.

[4] For fiscal year 1967 through 1970, entries are actual as taken from annual fiscal-operations reports; fiscal year 1971 through 1975 entries are estimated.

TABLE III-A.—SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS—FISCAL YEAR 1974 OPERATIONS (FISCAL YEAR 1973 FUNDS) INITIAL YEAR

	Panel recommended	State allotment[1]	State percentage	Number of institutions participating	Average institutional award	Number of students estimated[1][2]	Average Federal per student[1]
California	$54,483,313	$23,719,335	43.535045	269	$88,176	34,300	$670
Florida	9,877,014	5,327,416	53.937515	70	76,106	7,700	670
Illinois	24,742,017	10,549,553	42.638208	125	84,396	15,200	670
Indiana	10,505,210	4,479,233	42.638208	49	91,413	6,500	670
Michigan	23,092,134	9,846,072	42.638208	105	93,772	14,200	670
New York	40,657,818	17,335,765	42.638208	224	77,392	25,100	670
North Carolina	12,458,178	5,311,944	42.638208	113	47,008	7,700	670
Oregon	5,881,125	2,580,614	43.879597	37	69,746	3,700	670
Pennsylvania	17,124,401	9,207,132	53.766155	145	63,497	13,300	670
Puerto Rico	5,954,897	2,539,061	42.638208	9	282,118	3,700	670

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[1] The State allotment is not the product of the estimated number of students times the estimated average Federal award per student because the State allotment includes administrative expenses and the estimated average Federal award per student does not include administrative expenses.

[2] Rounded to nearest 100.

TABLE III-B.—SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, FISCAL YEAR 1975 OPERATIONS (FISCAL YEAR 1974 FUNDS)

	Initial year			Continuing year						
	Panel recommended	State allotment[1]	State percentage	Panel recommended	State allotment[1]	State percentage	Number of institutions participating	Number of students, estimated[1] [2]	Average institution award	Average Federal per student[1]
California	$41, 749, 249	$12, 395, 309	29. 689898	$17, 358, 499	$10, 806, 282	62. 253549	290	33, 500	$80, 005	$670
Florida	5, 962, 703	2, 555, 965	42. 865887	3, 944, 113	2, 445, 350	62. 253549	74	7, 200	67, 720	670
Illinois	15, 456, 597	4, 589, 048	29. 689898	9, 117, 428	5, 675, 923	62. 253549	141	14, 800	72, 801	670
Indiana	4, 363, 247	2, 041, 284	46. 783599	3, 949, 466	2, 458, 683	62. 253549	56	6, 500	80, 357	670
Michigan	10, 846, 092	3, 799, 777	35. 033604	7, 618, 321	4, 742, 675	62. 253549	105	12, 300	81, 356	670
New York	24, 407, 1[illegible]	8, 092, 896	33. 157857	13, 949, 240	8, 683, 897	62. 253549	257	24, 200	65, 279	670
North Carolina	5, 596, 870	2, 088, 351	37. 312837	4, 497, 648	2, 799, 946	62. 253549	115	7, 100	42, 507	670
Oregon	5, 778, 611	1, 715, 664	29. 689898	2, 903, 654	1, 807, 628	62. 253549	43	5, 100	81, 937	670
Pennsylvania	9, 187, 677	4, 360, 729	47. 462802	8, 016, 788	4, 990, 735	62. 253549	151	13, 500	61, 930	670
Puerto Rico	5, 940, 592	1, 763, 756	29. 689898	1, 986, 178	1, 236, 466	62. 253549	9	4, 300	333, 358	670

[1] The sum of the State allotments for initial and continuing year awards is not the product of the estimated number of students times the estimated average Federal award per student because the allotments include administrative expenses and the estimated average Federal award per student does not include administrative expenses.

[2] Rounded to nearest 100.

TABLE IV.—ESTIMATED NUMBER OF PARTICIPANTS IN SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAMS[1]

	All institutions[2]	Public institutions	Private institutions	2-yr colleges	4-yr colleges	Universities
Estimated total number of participants, 1972–73	[3] 364, 300	241, 600	122, 200	76, 500	207, 100	80, 100
Response rate (percent)	(75)	(75)	(75)	(68)	(78)	(75)
Estimated total of participants, 1973–74	356, 700	242, 000	114, 100	89, 800	189, 700	76, 500
Response rate (percent)	(75)	(75)	(77)	(68)	(79)	(74)
Estimated number receiving assistance under another Federal program, 1973–74	326, 200	220, 200	105, 400	80, 900	171, 900	72, 800
Response rate (percent)	(69)	(69)	(70)	(61)	(73)	(68)
Participants by level of instruction, 1973–74 (percent):						
Freshman/sophomore	65	71	54	100	55	52
Junior/senior	35	29	46	0	45	48
Total percentage	100	100	100	100	100	100
Response rate	(67)	(64)	(71)	(64)	(71)	(63)
Participants by adjusted family income, 1973–74 (percent):						
0 to $7,499	85	86	82	86	84	85
$7,500 to $14,999	15	14	18	14	16	15
$15,000 and over	(4)	(4)	....	(4)	....	(4)
Total percentage	100	100	100	100	100	100
Response rate	(66)	(65)	(67)	(65)	(69)	(61)
Average amount of grant, 1973–74	$646	$469	$827	$448	$783	$748
Response rate (percent)	(72)	(73)	(72)	(64)	(75)	(71)

[1] Estimated numbers of participants are rounded to the nearest 100.

[2] Independent medical schools are included in the column for "All institutions," but are not included in other columns.

[3] Confidence limits have been computed for all figures. Except where specified with reference (5), 95 percent confidence limits ranged no more than plus or minus 2 percent of the figures. Confidence limits ranging above 2 percent are presented in app. D.

[4] Less than 0.5 percent.

Mr. O'Hara. Thank you very much, Dr. Phillips.

The allocation formulas, when we looked at them as they related to college work-study, showed some rather sizable differences in terms of the percentage of panel-approved amounts available to the various States.

Dr. Phillips. Perhaps you would like to look at table III–A and III–B and we can review some of these percentages. In general, I think the response would be the same as that which I gave you with respect to work-study although there is quite a bit more variety of State percentages.

Mr. O'Hara. NDSL seems to be more of a variation.

Mr. Rowe. I think in college work-study the location of institutions in urban States, for instance, is a factor in terms of employment opportunities. I think size of institutions is also a factor.

Mr. O'Hara. The formula seems to work out not too badly here. The variation seems to run somewhere between 29 and 47. Two of them are up to 53. That has been a subject of concern to us because as we understand the approval procedure—we appreciate the fact that perhaps institutional requests may be somewhat inflated—but the panel procedure, as we understand it, does a pretty good job of analyzing the institutional requests so that when you have got panel recommendations you have got something pretty solid in terms of the capacity of the institution for work-study, direct student loans and educational opportunity grants.

Dr. Phillips. I think there is a point here in which perhaps the committee would be interested. In the institutional applications for the

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upcoming academic year for SEOG, work-study and NDSL, one of the items that is included is an estimate of how much money would be available from other sources, and one of the sources would be the basic grant program. Check me if I am wrong, but I think the total amount that was estimated by the institutions as being available and used from basic grants was only $180 million.

In fact, we will, as you know, have a somewhat larger amount of money that will be available and presumably this year will be fully utilized in the basic grant program, which might have some effect on the actual amounts of SEOG moneys that would be needed to fill out the total needs as estimated by the institutions.

The other point that I would just draw to your attention is in table III–B where you can see very clearly what happens when you go with a uniform national percentage as we talked about previously in conection with the work-study program.

You can see that in the continuing year when you do have the uniform national percentage, the obvious result does occur. You have a kind of direct relationship between the available funds nationally and the estimated needs nationally, and on the continuing year portion of SEOG, each State is funded at the same percentage, 62.253549.

Mr. O'Hara. I am interested in that; and of course, the college work-study, as I recall, feeds into the formula the number of people of college-going age in the State.

Dr. Phillips. Yes, it feeds in another factor.

Mr. O'Hara. Mr. Dellenback, did you have any questions?

Mr. Dellenback. Yes, I wanted to ask just a couple, if I may. I wanted to say just one more word about the question I asked earlier about that base award, because I think it is important that those educators who have felt that perhaps BOG was not worth really getting involved in because the amounts are so small, should see clearly what a dramatic increase is likely to be involved this year when we move from an average award of $260 to an expected average award of $680. That is a very substantial increase.

When we move from a practical maximum of $452 to an expected maximum of about $1,050, BOG should really take on a much more significant involvement in educational financing plans in the year which we are now getting than is the case before.

So what you are doing in the way of getting out the word on this program, I think, is going to prove to be very valuable. I am going to watch with real interest what the figures for participation during this coming year are.

If they don't move up a major degree, I will be very surprised. That was the purpose of my trying to get the base. It didn't show nearly as significantly on the other.

Dr. Phillips. I think, Mr. Dellenback, in connection with that comment you just made, you might be interested to know that on the basis of applications received to date, we estimate that about $150 of the $475 million has already been obligated at this point.

This is, I think, quite encouraging and certainly relevant to last year when at this point we didn't even have applications out.

Mr. Dellenback. That is right. And this is not only a result of the increase in amount, but the whole program this year is moving forward on an earlier basis. You are getting it broadly distributed and this kind of thing.

I would just say parenthetically that my great concern at the moment is that the appropriation process that is underway right now, not for the fiscal 1975 year, but for the year beyond that, is going to be, it if continues at the appropriation the committee has given an indication of to date, at a woefully inadequate level because we get some indications that instead of moving to a minimum of $800 million, which seems to me is imperative, we are going to be somewhere in the $600 million.

I think if that information I have just alluded to is accurate and if it is not corrected, we are going to find that 1 year away there is a very serious impingement on the effectiveness of this program.

I am sure you don't need to be alerted to this, but as we finish the action in the House, whenever that may be, and finally see what the House really does on this, if it is in a level like that, it is imperative that every effort be made on the Senate side to get that figure corrected.

Dr. Phillips. By way of response, I would certainly say we share your concerns, because one of the most devastating things that could happen to this program would be if we got into the third year of operation, or really the second full year of operation, and were required to exercise some reduction of the award amounts. The whole initiative could falter in that process, so we certainly share your concern.

Mr. O'Hara. Would the gentleman yield?

Mr. Dellenback. Of course.

Mr. O'Hara. I might ask my friend from Oregon where he proposes to get the money?

Mr. Dellenback. I think part of it might very well come from SEOG. I think the concept that was involved in the 1972 amendments as we moved forward into the BEOG program, was not a constant increase in SEOG money but a threshold amount, so we are protecting those students who are relying on EOG while we move into the BOG program.

As we move into the BOG program, it seems to me we are in a very sound position to start to phase down some of the moneys in SEOG, and yet again, the unofficial information that has reached me is that there is at least a recommendation to date that SEOG may go up instead of down, and it will come out of the hide of BEOG.

I hope the information that reached me is inaccurate.

Mr. O'Hara. Your sources are much better than mine.

Mr. Dellenback. These are not definitive. They ar[illegible]st vibrations that flow through the atmosphere. But I am very interested if they prove to be accurate. I think we of the House will be making a serious mistake if we indeed don't correct it on the floor. That is one place I would go, then you and I can look very hard together at whether the total amount appropriated for student assistance is really enough.

Dr. Phillips. In further reference to that point, in table II of the testimony that we have just presented, on the second line, setting forth the recommended funding levels, which we have used as a kind of indicator of demand, you may notice that in the last 2 years, we experienced a kind of stabilization of the demand for SEOG funds in terms of the amounts recommended by the panels, actually close to a $10 million reduction in amount.

And if you further take into account the difference between the institutional estimate of the utilization of basic grants, as I said, $180 million, and actual availability of $475 million, plus the carryover, then one could argue that in effect if you add another $300-plus million from the other source, basic grant being available during 1974–75, the actual demand figure for 1975 could be reduced to as little as $150 million, or something in that range.

I think that is an important kind of knowledge for the subcommittee to have, that all of these figures are interrelated as I tried to explain at the outset of the work-study hearings.

The other point I would make is that, as we move ahead on another track to consider the whole question of the family contribution schedules and various opportunities or options that have been suggested from a variety of sources for "liberalization" of the family contribution schedule, that is going to cost money, too—a good deal of money.

And again, it is another flag we might raise here about the difficulties that could be created by a lower basic grant appropriation.

Mr. Dellenback. The interrelationships, Dr. Phillips, of this nature that went all the way through on this, not only the interrelationship of loans and grants but the relationships between SEOG and BOG, there are interrelationships between what happens in the field if we change the family contribution schedules; so it is the factor between each one in the programs.

There are whole host of different kinds of interrelationships. In connection with the flexibility between SEOG and college work-study that you allude to on page 8 of your testimony and this 10 percent which may be transferred back and forth from one program to another, does experience indicate to us that that 10-percent flexibility is sufficient?

Dr. Phillips. I wonder if perhaps one of my colleagues might like to answer that.

Mr. Shaw. There is no experience upon such an arrangement because it did not exist in the EOG program except at the outset of that program there was a transfer of funds from EOG to NDSL that expired at the end of 4 years of operation.

That was undertaken by a mere handful of institutions and at no point exceeded something in the order of two or $300,000, so that experience really doesn't say much to the question. But the aid officer, in making his package may find that he has work opportunities but no work-study money and so, by shifting SEOG money to CWS he can then can utilize existing employment opportunities on campus and provide a balanced package which would contain the necessary matching for the grant in the package.

Mr. Dellenback. Recognizing of course that the SEOG program as such was created by the 1972 amendments, are you telling us the reports which we have so far, of the year that has just concluded, are inadequate or we don't have enough information?

Mr. Shaw. We don't have the reports.

Mr. Dellenback. But surely you have some vibrations coming in from the field.

Mr. Shaw. Except, again, the NSDL and work-study constitute a very major source of the matching requirements, so this is all tied in with the packaging concept.

Dr. PHILLIPS. I think we could say the flexibility provision is one that we certainly approve of.

Mr. SHAW. Absolutely.

Dr. PHILLIPS. And that the whole concept of having flexibility available so you can package aid to meet the individual circumstances is a good one. Whether the 10 percent is an adequate flexibility factor, I think that is a question we are not in a position to answer perhaps as well as other witnesses who are working at the institutional level could.

Mr. DELLENBACK. The kind of information that will be fed to OE, I assume when it comes in and you will be able to study it it will tell us pretty accurately how much transfer took place.

Mr. SHAW. Yes.

Mr. DELLENBACK. I think that is going to be important to know because it will tell us something not only about the degree to which we ought to have a transfer flexibility factor there but about how much ought to be appropriated in each of these particular programs.

I think my colleague and I would be in agreement on this. This will tell us which program in the operations out in the field is considered, with limited dollars, the priority program. Again I would hazard a guess at this stage. My guess would incline me to feel that the transfers will move in the direction from SEOG to CWS; at least I hope so.

Dr. PHILLIPS. By way of response I might indicate that we have included in the new fiscal operations report for fiscal year 1974 lines that can record the amount transferred from work-study and spent in SEOG and the amount transferred the other way and spent in work-study.

We will have some of this information available this summer as these reports begin to be analyzed, given our limited capacity to analyze them, and we hope that capacity will be expanded greatly to meet the committee's requirements.

The other aspect that may be useful to the committee will be to find out which way the transfer is being utilized, whether it is being utilized primarily to supplement work-study or the other way around.

Mr. DELLENBACK. Do you have any information yet as to institutions returning SEOG money at the end of the year because they couldn't use those last dollars, or college work-study?

The allocations are out and supposedly we are churning along and then at the end some institutions haven't used it. Will the reports yield that information?

Dr. PHILLIPS. Yes; it will.

Mr. DELLENBACK. When the EOG program was begun, students, as I recall, could only receive 50 percent of student aid in the form of grants. Now with the BEOG and large State programs, is it not possible for a student to receive all or most of his aid in the form of grants? Is that not one of the possible switches that is taking place?

Mr. SHAW. Yes, sir. If we take the basic grant at $1,050, and the student's need is $2,100, the remaining $1,050 could be a supplemental grant.

Mr. DELLENBACK. So there is a potential switch; not only the Federal programs but it could be an interrelationship. Are we being premature, Dr. Phillips, or any of the rest of the panel, because you have made this distinction between the information report and the policy report, to ask you now whether you think that is a good kind of switch, or at least if you feel if you want to hold off a policy comment on that will you be ready for that at the right time because when we start welding the programs together in a new type of relationship I would be interested in a policy evaluation, not just an informational evaluation?

Dr. Phillips. I think we will be ready at the appropriate time to deal with the policy question of the role of grants as related to other forms to student aid. We probably shouldn't make a policy evaluation at this point.

Mr. Dellenback. Our figures indicate that the BEOG program reaches about 5,300 institutions, if I recall correctly. You just indicated to us that the SEOG program is 2,872 institutions.

Why don't more schools participate in the SEOG? Is the differential in proprietary institutions larger? Why that difference in institutions?

Dr. Phillips. I think I might ask Dick Rowe if he would comment on this.

Mr. Rowe. I think the basic reason is that in the campus-based programs the initiative to make application is upon the institution, whereas, in the basic grant program if you are an eligible institution the students in that institution are eligible under certain criteria for grants.

Mr. Dellenback. Is it saying the institutions are falling down on moving into these programs?

Mr. Rowe. I think a number of them have chosen not to participate. I think it must be remembered that the law itself extending grant programs to proprietary institutions is a recent enactment. As a result, there was no real participation.

It wasn't possible for proprietary schools to participate in the grant programs prior to this fiscal year.

Mr. Dellenback. If my recollection is accurate, we have about 2,400 institutions that are participating one way or another in BOG that are not participating in SEOG. That is a very high percentage.

Dr. Phillips. Perhaps I could ask Mr. Voigt to comment further.

Mr. Voigt. I think in a large measure it is true because a lot of the schools eligible now for basic grants and supplemental grants are relatively new to the student financial aid field in general.

Included in our list of schools eligible for basic grants are a number of hospital schools of nursing, new State vocational and technical institutions, many community colleges who haven't participated heavily in student aid programs before and who are now getting into this area.

I think these participation figures presented to you at this point might be misleading because of the fact that the basic grant program is getting the schools involved in student aid programs.

Dr. Spearman. I think there is another important point, Mr. Dellenback, and that is that basic grants does not require a maintenance of effort and a maintenance of effort is required for the college-based programs, so many of your proprietary schools have no history of building up a reserve to accommodate the three college-based programs, in addition to the fact that the expansion of the universe of eligible students does not make it possible to develop the expertise that is needed.

Mr. DELLENBACK. I can see this and this has been one of the things in our past discussions that others in the audience are aware of that we have been talking about in this field of expertise.

There are some schools that have topnotch experts with a real breadth of experience and theoretical knowledge, but there are a host of schools that—it doesn't apply to just proprietary schools but other schools—who just don't have that available, so it varies.

It seems to me this information about possible participation in SEOG ought to be disseminated just as much as possible by the associations, by the Office of Education, by the people working in the field and not just because we want to reach proprietary institutions versus the nonproprietary institutions, but because of the nature of the training achieved.

We want to get into community colleges. We want to get into other occupational types of education. That is part of what we were reaching for when be broadened the programs under the 1972 amendments.

Dr. PHILLIPS. This is precisely why we think the training program undertaken this year is so important and why the training program was designed as a kind of umbrella building on basic grants and trying to deal with larger issues of financial aid, and why we were very grateful for the outstanding work done by the contractor here.

Mr. DELLENBECK. Under the matching requirements of SEOG does a subsidized guaranteed loan qualify or must it be a grant?

Mr. SHAW. It can qualify if it comes from the institution. The institution is a lender using its own funds under the guaranteed program.

Mr. DELLENBACK. So the match can be loan instead of a grant?

Mr. SHAW. That is right. NDSL or institutional loan.

Dr. PHILLIPS. However, there are some technicalities there which perhaps the committee is going to want to look at. Some forms of institutional assistance do not qualify. As I understand it, institutional employment does not qualify.

Mr. SHAW. No, it is aid provided by the institution.

Mr. DELLENBACK. As long as it comes from the institution it doesn't matter whether it is grant, work-study, or loan; it can be any of these as long as it is institutional?

Mr. SHAW. Right.

Mr. DELLENBACK. The change, the loosening up of the need requirement which we made in SEOG, you allude to that, Dr. Phillips, in your testimony, is there really not more grantsmanship involved?

Don't experienced student aid officers end up better than the inexperienced?

Dr. PHILLIPS. We have never done a study of the institutional applications according to the experience of the financial aid officers, but I would expect this is a complicated process. It does take a fair degree of sophistication, understanding that both financial aid and the wierd and wonderful world of Federal applications in order to work your way through probably would place some premium on expertise.

Mr. DELLENBACK. The more we can move together, we legislatively and you administratively, in simplifying and standardizing, the more we will be cutting in on that kind of unfair spread.

Dr. PHILLIPS. Absolutely.

Mr. DELLENBACK. I think it is unfair in a sense because we are helping education if we can help bring it to the highest level, but if we fail in that we ought to at least be into a situation where there is as much equality and balance as we can possibly get.

Dr. PHILLIPS. Could I follow up on one earlier question just briefly? You asked a question about utilization of SEOG funds and the amounts of money that might be left over at the end of the fiscal year.

You should be aware that we do go through, each year, a series of reallocation procedures to try to minimize the amount of money that might not be utilized in the SEOG program. This is a very complicated business and it is another area where the limitations imposed by the State allotment formula are problematic because moneys can only be realloted within a State, so that even in spite of all of our best efforts to reallot among institutions within a State, you may have a situation where an institution within a State does have money that won't be expended for one reason or another and there is no one in that State that might need it or be able to use it that late in the year, but you can't cross a State line with that money.

It is another one of the problems that arises which is directly attributable to the State allotment formula basis for distribution of these moneys.

Dr. SPEARMAN. That is applicable to both the SEOG and college work-study but not applicable to the NDSL.

Dr. PHILLIPS. There is no reallotment in NDSL, but we do try to make sure that every dollar is fully utilized.

Mr. O'HARA. Dr. Phillips, I was somewhat concerned by the implications of the statement of my friend from Oregon with respect to how it would be tragic if BEOG, once awards reached a certain level were to ever fall below that level.

I want you to know, with your responsibilities at the Department, that I am prepared, if it is this committee's decision to change the mix of student aid programs, to see whatever adjustments have to be made.

In other words, I don't consider the fact that the maximum BEOG grant in the coming year may be $1,050 to be an implied commitment that it shall never be less than that on into the next century.

If this committee and the Congress decides that we are going to do it some different way we might well make it less, or abolish it, or whatever.

Mr. DELLENBACK. I would join my chairman, if he would yield, in this by saying that by no means do I for a second mean to say that we are wedded once and for all to an ever rising figure in this particular regard.

I do express concern, Jim, that if this year we go to figures like that and thus have covered the first year and second year with this kind of figure, if we go forward to the third year with a drastic falloff and the need for each student and financial aid officer to come and do some new type of computation with all of the difficulties that come as we go into such new rules and there is at least a major block in helping those students, I think we are going to have a very serious impact on the aid that we want to get through to students.

But I would join you in the basic thing.

Mr. O'HARA. I think the committee has to be careful with any changes it makes to phase them in in such a way as to not cause hardship. But I think we have to be careful of the total mix even though we have to change elements in the mix.

Mr. DELLENBACK. Of course, you and I are aware of the difference between the time that we may hear of it in the subcommittee considering a change and the time that change finally has its impact out in the field.

What I am worried about in this particular thing we are talking about here in next year's appropriations for BEOG is that there isn't enough time, I fear, for us in this set of hearings to come up with a change in law, getting it adopted into final form, getting it implemented into the field.

We are going to be deep into that year that we are now appropriating for and if that change takes place before we can make the change in mix you are talking about I think that means very serious trouble.

Mr. O'HARA. I think we have to be very careful about those times. I just want to clarify that point.

Let me bring to Mr. Voigt's attention the testimony yesterday, which you heard, Dr. Phillips, by the New York State people with respect to their tuition grant program which is a need-based program where they don't tax assets in their computations.

Dr. Phillips took with him a copy of a pamphlet they put together explaining what they had done and why they have done it. I am not expecting the answer today, but it was interesting to me that they have reached a conclusion after making a study of the impact of tax and assets that suggested in the first place, it didn't make an awful lot of difference whether you tax them or not and, that it made the most difference to low-income rural residents and, that the assets had a lot to do with where the person lived, whether they lived, for instance in New York City, the metropolitan area, or upstate somewhere.

So, one of the things we are very interested in is the taxation aspects and I hope you are going to have an opportunity to examine that and other materials.

Mr. VOIGT. I looked at it last night and we are going to be considering the whole question of treatment of assets when we testify on the family contribution schedules for 1975–76.

Mr. O'HARA. Let me simply make this observation. If the taxation of assets doesn't make a lot of difference in the first and, in the second place, produces as many inequities as it cures, only different ones, I certainly would lean toward a simplification step that would say, clean them out of the formula. I guess that is simple.

Mr. VOIGT. As I say, we are looking at that whole question and doing some studies in that area.

Mr. O'HARA. Thank you all for coming up again. We are going to go on with the rest of our witnesses and will expect you back Thursday.

Our next witness will be Dr. Larry Leslie of Penn State University's justly renowned Center for the Study of Higher Education. Dr. Leslie has been asked to give the subcommittee the benefit of his thinking on grant programs in general.

STATEMENT OF DR. LARRY L. LESLIE, CHAIRMAN, HIGHER EDUCATION DEPARTMENT, PENNSYLVANIA STATE UNIVERSITY

Dr. LESLIE. I am humbled by the relative size of the contingent that I had today. As a research methodologist we would call that an unobtrusive measure of the relative funding of the Federal bureaucracy in comparison to institutions of higher education.

Mr. O'Hara. That is one thing you could call it.

Dr. Leslie. Allow me to begin, if you will, with a background statement as to why I think I came to be sitting here today. I think it is fair to say that prior to 1970 I knew almost nothing about student aid programs.

I was, at that time, and continue to be, a research associate in the Center for the Study of Higher Education and Chairman of the Higher Education Department at Penn State. My area of my specialities are research methodology and education for the professions. Almost everything I knew about student aid I learned from the popular press.

But, in the fall of 1970, I was asked to make suggestions about a proposal that had been composed by the Committee for Economic Development, a proposal that was entitled "The Management and Financing in Colleges."

Later, when that proposal was funded by the Ford and Danforth Foundations I was asked to join the staff of the CED for the duration of that project. It was in this connection that I came to understand the policy issues concerning the financing of higher education and for the 2-year duration of that project and since that time I have devoted my full attention to these matters.

Incidentally, before proceeding, may I make a disclaimer concerning the resulting CED policy statement? Neither I nor my two colleagues, one a former Commissioner of Education, who composed the principal staff, wish to take any credit whatsoever for the recommendations of that policy statement insofar as higher education finance is concerned.

Mr. O'Hara. You just helped yourself with the chairman.

Dr. Leslie. To continue, it became very clear in the CED process that there were extraordinarily intense feelings regarding the various options for financing higher education and that the various views held both on my part and on the part of others emanated almost exclusively from strong value positions.

There was practically no empirical evidence or facts, if you will, to be marshaled in support of either view. There were only ideological positions that would fail to meet the normal tests of objective scholarship.

This brings me then to my initial point. It was during the progress of the CED deliberations that I became aware of a data void regarding the effects of student aid. I set out to collect empirical evidence to show just what would happen if we would shift the emphasis of our higher education financing strategy to greater reliance upon placing the resources in the hands of students.

This seemed like a good idea because it appeared we would soon be spending billions on such programs. In short, several colleagues and I sought to examine certain implications of the trend to place more and more public resources in the hands of students and to force institutions to compete for those students.

I will forego most of my personal opinions and concentrate as much as I can upon what some of the implications would appear to be. In the interest of time I will concentrate on only two effects, what

I would call the distributive effects and the equality of opportunity effects of financing higher education through students.

By the first I mean, how grants and scholarship programs affect enrollments in various kinds of postsecondary institutions. You will remember, of course, that one of the alleged advantages of the student funding mode was that it would redistribute students into the largely financially troubled private sector.

The second part of my comments will deal with what the record shows regarding the expansion of equality of educational opportunity, which is certainly the major point of interest to the subcommittee.

Based largely on a study of the grant-scholarship recipients in the five States having the largest student aid programs I think it can safely be said that many students will change their attendance patterns when given opportunity grants.

I must advise caution in describing these findings because it is true there are literally an infinite number of ways in which student aid programs could be structured.

We were able to look at the effects of only six programs in five States and not only do the general higher education conditions in the States vary immensely, but also so do the regulations of their respective student aid programs.

Our States were New York, California, Illinois, New Jersey, and Pennsylvania. They accounted for approximately 79 percent of all student aid funds disseminated by the States in 1972, and their programs ranged from being essentially need-based, like the BOG in four cases, to having a heavy scholarship feature in two cases.

If I may direct your attention to the set of tables you have been provided, I would like to make several observations. From samples of 1,000 students in each State, we found, as shown in table II, that an average of 42.1 percent of the aid recipients reported that it was State student aid that made it possible for them to attend college.

You can see that there are great differences by States and I really should be concentrating upon individual States. But again, I fear time will only permit generalizations. It is important to note, however, that the first two programs, that is, the New York and the first New Jersey program, the Pennsylvania and Illinois programs are the need-based programs, whereas, the second New Jersey program and the California program have a heavy scholarship feature, which is, of course, not characteristic of the Federal aid programs.

You should also note how very small the amount of aid was for the programs we surveyed in New York. It is very close to the $260 average for the BOG's during this academic year. One cannot really expect much to happen when the amount of money is so small and that is what we found in our study.

Allow me to merely sum up the tables. The staff may wish to study them more closely later. In sum we have very consistent data showing that when students are given aid they generally prefer the private, the non-2 year and the small institutions.

These trends are very striking and they are very consistent. This is in comparison to the norms for attendance patterns of students in these five States. Among those students whose attendance patterns were altered, three times as many chose the private institutions as chose public institutions. Almost no one chose 2-year institutions when given grants.

And there was an unusual preference for smaller institutions.

Mr. O'Hara. Have you got a table on that?

[The table referred to follows:]

TABLE I.—COLLEGE STUDENT GRANT STUDY: SUMMARY OF STATE SCHOLARSHIP AND GRANT PROGRAMS EXAMINED 1971-72

	New York	New Jersey (S.I.A.)	New Jersey (T.A.)	California	Pennsylvania	Illinois
Need based only	Yes	No	Yes	No	Yes	Yes.
Competitive and need based	No	Yes	No	Yes	No	Yes.
Maximum award	$600	2-yr college, $350; others, $500.	$1,000	Private $2,200; State university $600; State college $160.	$1,200 in State; $800 out of State.	$1,200.
Percent of tuition and fees	100 percent less $200	Tuition only; $500 maximum.	Tuition must exceed $450	100 percent	100 percent	100
Out-of-State institution eligible	No	Yes—35 percent of total program.	No	No	Yes	No.
School eligible:						
2-yr private	Yes	Yes	Yes	Yes	In State and out of State	Yes.
2-yr public	Yes	Yes	No	No	In-State only	Yes.
4-yr private	Yes	Yes	Yes	Yes	Yes	Yes.
4-yr public	Yes	Yes	No; because tuition under $450.	Yes	Yes	Yes.

TABLE II.—NUMBERS AND PERCENTAGES OF STUDENTS WHO ENROLLED IN HIGHER EDUCATION AS A RESULT OF HAVING RECEIVED GRANT OR SCHOLARSHIP AID AND AVERAGE AWARD AMOUNTS

	New York (N=673)	New Jersey (TA) (N=360)	New Jersey (SIA) (N=453)	California (N=824)	Pennsylvania (N=432)	Illinois (N=587)	Average
Numbers	214	176	217	245	201	209	
Percent	31.8	49.0	47.9	29.7	46.6	51.5	42.1
Average award amount	$203	$705	$525	$929	$665	*$688	

* Estimated.

TABLE IIA.—CORRELATIONS BETWEEN AMOUNT OF AWARD (IN DOLLARS) AND DEMAND FOR HIGHER EDUCATION AMONG AID RECIPIENTS

	New York (N=673)	New Jersey (TA) (N=360)	New Jersey (SIA) (N=453)	California (N=824)	Pennsylvania (N=432)	Average
Would not attend college without aid	.2[illegible]	.24	.67	.05	.22	.28

TABLE III.—STUDENTS ATTENDING THE PUBLIC AND PRIVATE HIGHER EDUCATION SECTORS

[Percentages]

	New York	New Jersey (TA)	New Jersey (SIA)	California	Pennsylvania	Illinois	Census (1971)[1]	College investment survey (1972)[1]	ACE freshman norms (1972)[1]
Public							79.2	80.1	74.4
State aid recipients	64.5	2.5	56.9	58.3	59.1	55.2			
State norms	[2] 59.5	69.5	69.5	89.7	57.6	76.9			
Private							20.8	19.9	25.6
State aid recipients	35.5	97.5	43.1	41.7	40.9	44.8			
State norms	41.5	30.5	30.5	10.3	42.4	23.1			

[1] Col. 7: U.S. Bureau of Census, op. cit., table 3; col. 8: The American college testing program, "A Study of the College Investment Decision: The ACT Data." Iowa City, Iowa, 1972; col. 9: American Council on Education, op. cit., p. 11, table 3.

[2] "Digest of Educational Statistics," 1972, table 80, p. 68.

TABLE IV.—1ST-TIME, FULL-TIME ENROLLMENTS COMPARED TO 1ST-TIME STATE AID RECIPIENTS WHO WERE ENROLLED FULL-TIME BY SECTOR (PUBLIC OR PRIVATE)

[Percentages]

	New York	New Jersey (TA)	New Jersey (SIA)	California	Pennsylvania	Illinois	Average[1]
Aid recipients	64.5	2.5	56.9	58.3	59.1	55.2	56.4
Public: 1st-time, full-time enrollment norms	64.8	71.9	71.9	88.6	58.1	74.5	73.6
Aid recipients	35.5	97.5	43.1	41.7	40.9	44.8	43.6
Private: 1st-time, full-time enrollment norms	35.2	28.1	28.1	11.4	41.9	25.5	26.4

[1] Weighted by numbers of students in each State.

Source: National Center for Educational Statistics, "Opening Fall Enrollment in Higher Education, 1973 (George H, Wade), U.S. Department of Health, Education, and Welfare. Washington: U.S. Government Printing Office, 1973; university and 4-yr, 2-yr, private, and public raw data computed from tables 17b (p. 396), 17c (p. 398), 17d (p. 400), 17j (p. 412). and 17e (p. 402), respectively.

TABLE V.—FIRST-TIME, FULL-TIME ENROLLMENTS COMPARED TO FIRST-TIME STATE AID RECIPIENTS WHO WERE ENROLLED FULL-TIME BY INSTITUTIONAL LEVEL

[In percentages]

	New York	New Jersey (TA)	New Jersey (SIA)	California	Pennsylvania	Illinois
University:						
Aid recipients	21.4	39.7	34.1	76.6	40.9	85.4
First-time, full-time[1] enrollment norms	15.8	17.9	17.9	12.3	29.3	26.6
4-year:						
Aid recipients	30.8	53.1	55.0	23.3	45.6	85.4
First-time, full-time[1] enrollment norms	42.2	41.9	41.9	19.4	49.4	26.3
2-year:						
Aid recipients	44.4	7.3	8.0	.1	6.5	14.6
First-time, full-time[1] enrollment norms	42.2	40.3	40.3	68.3	21.3	47.2
Other:						
Aid recipients	3.4	0	2.2	.1	7.0	0
First-time, full-time[1] enrollment norms	([2])	([2])	([2])	([2])	([2])	([2])

Note: Percentages may not equal 100.0 percent due to rounding.

[1] Source: National Center for Educational Statistics, Fall Enrollment in Higher Education, 1971 (George H. Wade), U.S. Department of Health, Education and Welfare. Washington: U.S. Government Printing Office, 1973: University, 4-year, 2-year, private, and public raw data computed from tables 17b (p. 396), 17c (p. 398), 17d (p. 400), 17j (p. 412), and 17e (p. 402), respectively.

[2] This source does not include an "other" category; therefore, data are not strictly comparable.

TABLE VII.—THE EFFECTS OF GRANTS AND SCHOLARSHIPS ON ATTENDANCE PATTERNS BY SECTOR (PUBLIC OR PRIVATE)

[In numbers of students]

	New York	New Jersey (T.A.)	New Jersey (S.I.A.)	California	Pennsylvania	Illinois
Control	N=673	N=453	N=360	N=824	N=432	N=579
1. Private attendees who would not have attended any institution without aid	70	112	172	108	84	125
2. Public attendees who would not have attended any institution without aid	144	104	4	137	115	174
3. Private attendees who would have attended a public institution without aid	33	35	35	185	14	45
4. Public attendees who would have attended a private institution without aid	4	4	1	5	0	0
5. Private attendees whose first choice was a public institution	29	18	65	10	10	
6. Public attendees whose first choice was a private institution	39	21	2	32	25	

TABLE VIII.—THE EFFECTS OF STATE GRANT AND SCHOLARSHIP AWARDS UPON STUDENT ATTENDANCE PATTERNS BY SECTOR (PUBLIC-PRIVATE)

[Percentages]

	New York (N=673)	New Jersey (TA) (N=360)	New Jersey (SIA) (N=453)	California (N=824)	Pennsylvania (N=432)	Illinois	Average
Public:							
Actual[1]	17.0	−8.3	15.7	−5.2	23.3	23.7	11.0
Hypothetical[2]	15.6	9.1	12.8	−7.9	19.9	([3])	9.9
Private:							
Actual[1]	14.7	57.2	32.0	35.0	22.7	29.4	31.8
Hypothetical[2]	15.2	39.7	34.9	37.6	26.2	([3])	30.9

[1] Actual gain as a percent of total awards.

[2] Actual and hypothetical (potential) gain as a percent of total awards.

[3] Unavailable.

TABLE IX.—THE EFFECTS OF STATE GRANT AND SCHOLARSHIP AWARDS UPON STUDENT ATTENDANCE PATTERNS BY COLLEGIATE LEVEL

[Percentages]

	New York (N=673)	New Jersey (TA) (N=360)	New Jersey (SIA) (N=453)	California (N=824)	Pennsylvania (N=432)	Illinois	Average
University:							
Actual [1]	7.3	16.3	15.9	35.0	19.9	(3)	18.9
Hypothetical [2]	12.3	18.6	22.3	34.8	21.8	(3)	19.5
4 or 5-yr college:							
Actual [1]	7.9	23.3	28.3	16.1	21.1	(3)	20.3
Hypothetical [2]	13.0	27.2	25.6	16.3	20.1	(3)	20.4
2-yr college:							
Actual [1]	16.3	4.1	2.2	−21.4	1.9	(3)	3.1
Hypothetical [2]	5.2	3.1	−1.5	−21.4	.9	(3)	−13.8

[1] Actual gain as a percent of total awards.

[2] Actual and hypothetical (potential) gain as a percent of total awards.

[3] Unavailbale.

TABLE X.—THE EFFECTS OF STATE GRANT AND SCHOLARSHIP AWARDS UPON STUDENT ATTENDANCE PATTERNS BY INSTITUTIONAL SIZE

[Percentages]

	New York (N=673)	New Jersey (TA) (N=360)	New Jersey (SIA) (N=453)	California (N=824)	Pennsylvania (N=432)	Illinois	Average
Small institutions (less than 2,500 students):							
Actual [1]	10.7	37.2	21.0	13.4	20.1	(3)	20.5
Hypothetical [2]	9.4	22.2	18.5	13.1	19.9	(3)	16.6
Medium-sized institutions (2,500 to 9,999 students):							
Actual [1]	16.2	12.5	22.1	9.8	18.1	(3)	15.7
Hypothetical [2]	16.6	18.9	30.9	12.6	18.5	(3)	19.5
Large institutions (greater than 10,000 students):							
Actual [1]	4.9	−.8	4.6	6.4	7.9	(3)	4.6
Hypothetical [2]	5.8	3.1	6.0	3.9	7.6	(3)	5.3

[1] Actual gain as a percent of total awards.

[2] Actual and hypothetical (potential) gain as a percent of total awards.

[3] Unavailable.

TABLE A.—INCOME DISTRIBUTION OF FAMILIES AND UNRELATED INDIVIDUALS WITH PRINCIPAL EARNER BETWEEN 45 AND 54 IN 1965, AND OF FAMILIES WITH CHILDREN ENTERING COLLEGE, FALL 1966

Income	All families	All college families
Less than $4,000	15.5	6.6
$4,000 to $5,999	14.6	12.9
$6,000 to $7,999	17.9	17.3
$8,000 to $9,999	15.6	16.9
$10,000 to $14,999	24.0	25.2
$15,000 to $24,999	9.8	14.0
$25,000 and over	2.7	7.1
Total	100.1	100.0

Source: "Current Population Reports," op. cit., Series P-60, No. 51.

Table IV shows the enrollments by sector, public or private, for the aid recipients in comparison to appropriate state norms. The major finding from this table is that the state grant and scholarship recipients in the five states generally are seen to enroll in private institutions in percentages greater than the percentages among students in the comparable norm group. In other words, aid to students would appear to result in higher enrollments in the private sector. This is a particularly important finding because most of us would have predicted that the lower-income aid recipients would have been more inclined to attend public institutions, as they have historically.

Table V compares the aid recipients' enrollment patterns to the state averages by level of institution. The major conclusion to be made here is that aid recipients appear clearly to be disinclined toward attendance in the two-year institutions.

Table VI shows the enrollments by institutional size. Here the pattern is a distinct preference by the aid recipients for small institutions.

This first set of tables shows only that aid recipients tend to have different enrollment patterns than do "typical" students. It says nothing about whether the aid in fact *caused* these different attendance patterns.

The next set of tables does get at causes. We asked the students where they would have attended without the aid, and we obtained the following answers, which, by the way are quite consistent with the aforementioned patterns.

Table VIII shows that the private institutions gain about 31 or 32 percent in enrollments as a result of these aid programs, and that public institutions gain only about 10 or 11 percent. I think it is perhaps most important to note first that both kinds of institutions gain in enrollments. There are enough *new* students coming into the system to make up for any losses by one sector to the other.

Table IX shows that universities and four or five-year colleges are major beneficiaries of student aid programs but that two-year colleges do not fare nearly so well. It was a striking finding of this study that, when given aid, students will depart the two-year colleges for the four-year colleges and universities but that the opposite is rarely true.

Dr. LESLIE. It begins with table III and would go through IV, V, VIII, IX, and X. For the figures I was just referring to, you would turn to table VIII, which gives a comparison of the public to the private enrollment shifts.

Table VIII shows in line 1 an increase in attendance in the public institutions, as a result of these programs, of 11 percent in comparison to a 31.8-percent increase in the private institutions.

Table IX breaks out attendance by level; that is, university, 4- or 5-year college or 2-year college. If one looks at the averages in the extreme right-hand column you can get a good picture of the general patterns.

One sees that for universities, 4- or 5-year colleges, the increase is in the area of 20 percent, a potential gain, and for the 2-year college a gain of 3.1 percent and a potential loss. That is to say, if students were able to select the institutions of their first choice, in other words under optimum conditions, there would be a decline in 2-year institutions, although most of that decline is attributed to California which has an unusual higher education scene in that tuition is free in the community colleges and therefore students in the California program are essentially not able to attend 2-year institutions if they get aid.

Table X shows the shift by size, with small institutions gaining about 20 percent, the midsize institutions about 16 percent, and the large institutions about 5 percent. These are shifts of students, those who say their attendance paterns were altered.

The earlier tables which I referred to would give you the comparisons to the norms for the individual States. Those are tables III, IV, and V. They are a little detailed. The staff might like to look at them.

It appears that those institutions reputed to be in greatest financial difficult, that is, the private institutions, particularly the small private institutions, would appear to be important beneficiaries of the student aid program.

I think there are very few of us in higher education who would fail to applaud this effect, whether we be from public or private colleges. The great strength of American higher education, it seems to me, has been its diversity and for many years now private institutions have been in relative decline in terms of their enrollments.

At the same time, it seems to me, Government should monitor closely the effects of the student aid programs. What are the goals and public policy concerning the desirable level of aid to the private sector?

There appears to exist the same absence of policy monitoring vis-a-vis low-income students. In addition to the large on-going Federal programs there are substantial State aid programs and, of course, the amendments of 1972 which would promote more State aid to these students.

What is the desirable level of aid to low-income students and at what point should we become concerned with the plight of the middle-income students?

Finally, the findings concerning 2-year colleges should give you special cause for concern since some segments of our national higher education policy would seem to be aimed directly at supporting and advancing the kind of education offered by 2-year colleges.

I refer you, for example, to title X of the Education Amendments of 1972. Yet, on the basis of this study it appears that student aid programs like the BOG's may run counter to the interests of 2-year institutions, in terms of enrollment.

The second element I would like to discuss briefly is an aspect of the equality of educational opportunity goal, which I think most would agree is a primary goal of the student aid programs.

The aspect I wish to discuss is that of needs analysis. More specifically, I would like to focus my remarks on the expected family contribution as it compares with the actual family-parental contributions.

Let me begin by saying that although I cannot put my finger on exactly all the precise causes, my work in the field in the last 4 years tells me that something is terribly wrong in the whole business of needs analysis.

And, by the way, that feeling would seem to be shared by the 90 percent of all student aid officers who "feel that the needs analyses result in unrealistic expected family contributions." That is a quote from an American Council on Education survey of this spring.

To start with, I think there is great confusion regarding some of the basic facts which are always cited as the reason student aid programs are needed. These facts have to do with which income groups are over-represented and which groups are under-represented. I am sure you are all aware that the basic statistics show that low-income students are underrepresented, but did you know that the only group that is over-represented is the upper income group?

Table A, which is the last table in your packet, third to the last page, shows that for the middle income students there is practically no over-representation of students attending college.

Yet, it seems clear that present form of student aid programs will, in the long run, aid lower-income students, not at the expense of those who are overrepresented, the higher income students, but at the expense of the middle income students because over a time I would expect, as a result of student aid programs, a fairer representation of lower income students but an unfairly low representation of middle income students attending college.

There are several reason for this and most of it would appear to be related to various factors bringing into question the needs analysis, particularly as related to the expected family contribution.

The first point is we should not overlook the fact that large percentages of students are financially emancipated from their parents. The facts from the 1960 census are that 45 percent of males and almost a third of female college students receive no support from home.

Based upon results of the recent student resources surveys in Washington and California, 50 percent or more of all student now consider themselves as self-supporting, although about one-third actually meet all the Federal criteria for emancipation.

But most remarkable to me, the college board found in three Western States participating in the student resource survey that a typical student paid for college from his own resources through employment earnings, savings, and loans.

There are two points to be made here: first, the expected family contribution is irrelevant for large segments of students who are legally emancipated: and, second, large numbers of the remainder are, in fact, independent for all practical purposes, although they may reside at home for periods in excess of 2 weeks, particularly during the summer months.

Thus, in sum the expected family contribution is quite inappropriate for the majority of college students. In our study of the five States we found the aid recipients were receiving an average of only $400 to $500 or only 20 percent of their total college expenses from their parents.

Even in New York, where essentially everyone was entitled to a grant, however modest, parents contributed an average of only $623, or 28 percent of all the student's resources for college.

These numbers compare very closely to college board data in three Western States and I will constantly refer to the college board data because in each case the data I am reporting from our finding are validated very well by the college board studies.

When I first obtained all these data it occurred to me something was amiss. My understanding was that the expected family contributions computed for the government by such groups as the College Scholarship Service were much higher than this.

Therefore, I recently set out to gather data comparing the expected family contribution and the actual family contribution of those who applied for student aid. The data source here was primarily students at Penn State whom we interviewed just last month.

The first conclusion we came to was that for those who applied for and received aid—the recipients—the expected family contribution on the average was amazingly accurate. In fact, there may be no more accurate estimations done by any agency of the Federal Government.

For example, based on the OE printouts of the BOG program for this year, I found the average expected family contribution for proposed recipients to be $479, which compares an average actual contribution of $477.

This also compares very well with the average we found in our 5 States, which you may recall was in the range of $400 to $500, again, for recipients. But, for those who applied for but were but were refused aid, the results are quite another story and this is where I think there should be special concern.

My calculations, again from the OE printouts of the BOG, show the average expected family contribution for nonrecipients to be $1,729. By the way, this figure is extremely close to the figure for those filed for aid of any kind and were evaluated by the College Scholarship Service.

But the average actual family contribution from every source I have been able to locate is in the neighborhood or in excess of $1,000 less than that figure of $1,729. The College Scholarship Service's own study shows that the actual family contribution of all applicants was only $619.39.

From this I have calculated that nonrecipients, those who were supposed to be getting aid from their parents in the amount of $1,729, are getting an average of $753.62. Again, these figures compare closely with the college board data from the three Western States.

Allow me to quote from the Washington State study. "Parents do seem less willing to contribute substantially towards college costs, but more important than willingness is the wide divergence between theory and family fiscal reality."

In other words, the average difference between the amount of aid recipients are getting from their parents and the amount nonrecipients are getting from their parents is only about $150 to $270, in contrast to the $1,200 to $1,300 the formula predicts.

Put another way, aid recipients, on the average, get from their parents almost exactly the amount the Government thinks they should while nonrecipients, largely middle income students, are getting less than 44 percent of the amount calculated by Government representatives.

My interpretation of these data is that although the middle income students are expected to contribute far more than parents of low income students, for whatever reasons, they are unwilling or unable to do so and a financing policy that assumes otherwise is grossly unfair, inaccurate, and inequitable.

Yet, lest what I have said be misinterpreted, remember I am speaking only of averages here. Of course, many nonrecipients enjoy adequate parental support but many more do not. And the same thing is true for recipients.

Perhaps this data shows why, in my view, the whole needs assessment approach completely breaks down. When we say that the average aid recipient receives from his parents almost exactly the amount calculated for the average student we tend to forget that this means of the order of 50 percent are getting less than they are supposed to, assuming a normal distribution.

In fact, in our interviews at Penn State last month we found that of those who did receive some form of Federal aid this year, almost 70 percent received less from their parents than forecast by the people who do needs analyses, even though the averages turned out all right.

All of this seemingly contradictory evidence can be explained by the fact that there are a few students who get much more from their parents than expected. Of course, I don't need to remind you that one cannot rationalize the difficult plight faced by many students by explaining that the average individual is receiving the right amount.

The $3,000 received by one recipient from his parents in no way compensates another who receives nothing or very little but was supposed to receive $1,729. It is for these reasons that I raise serious questions about needs analysis.

Perhaps I could briefly summarize what I have said. The first is that the State aid programs at least—and I would anticipate that the Federal programs would have somewhat the same results—tend to cause a redistribution of students to the private institutions, to other than 2-year institutions, and to the small institutions.

Also, the grant programs are allowing many underprivileged youth to go to college. We do have to remember, however, that nearly 60 percent of State-aid recipients say they would have gone to college without a grant.

Needs analyses are helpful tools for determining what the average low-income families do to support their sons and daughters in college. However, it is a poor device for denying aid to needy middle-income students and to many "atypical" low-income students.

There is a very poor relationship between anticipated family support levels of middle-income families and their actual contribution to their children's education.

And finally, although we know many middle-class students are able to scrounge the money, their parents don't contribute. We do not know how many middle-income students do not go to college at all when they have been denied State and Federal aid.

I hope this committee will examine the equity of the needs analysis very carefully when the Higher Education Act is reauthorized. Thank you.

Mr. O'Hara. Let me go over the tables with you. Let's start with—as they say in Alice in Wonderland—at the beginning. Describe to me briefly the various assistance. Can you do that?

Dr. Leslie. Beginning at the left, the first two programs, that is, the New York program we examined and the New Jersey SIA, scholar incentive aid program, and the last two programs, the Pennsylvania and Illinois programs that we examined are need based.

The New Jersey tuition aid program and the California program have a heavy scholarship feature, particularly the California one.

Mr. O'Hara. I think you turned them around. The scholarship incentive program——

Dr. Leslie. They are in the right order in the rest of the tables.

Mr. O'Hara. If I can remember that "S" stands for "scholar."

Dr. Leslie. There are several important idiosyncrasies of the various programs beginning with the New York program. The New York program is the program which essentially entitles every student in the State to some aid—supposedly there is a $20,000 family maximum for eligibility, but that is, in essence, ignored in that particular program.

Everybody gets some money, however small. I think $50 is the minimum. The average amount is only $203. It is a program comparable in amount to the BOG program.

Then the New Jersey scholar incentive award and the New Jersey tuition aid program were essentially designed to assist students in attending private institutions. It is interesting to note that in the tuition aid program, in line 4, the tuition must exceed $450 for eligibility, which happens to be the amount of the highest public tuition in the State.

That was the intent and that is one of the reasons we are seeing a redistribution of students to the private institutions in these States, although in the other States those that don't have that sort of intent, we get the same kind of effect, albeit a lesser one.

The California program has a very heavy scholarship feature, as I indicated, and community colleges are essentially eliminated from this program because the award amount is based upon tuition.

The Pennsylvania program will probably be the best facsimile of the BOG program when it is fully funded. That is one of the reasons we spent an awful lot of time looking at the Pennsylvania data.

The award amounts are about the same. The ways in which the amounts are calculated are very comparable to the BOG system. The one major difference, of course, would be that the Pennsylvania system of higher education was by no means representative of the country.

Pennsylvania has a much larger private institution component than do most States. About 42 percent of the students in Pennsylvania are in private institutions.

Also, the Pennsylvania system allows students to take the grants out of State. Finally, the Illinois program, and this is only the grant program of all the Illinois programs, also has a relatively large maximum award amount of $1,200.

Are there any other specific questions about those?

I think the interesting thing is, as you look back to the remainder of the tables, that although there are great differences by State in the nature of the programs and in the nature of the higher education systems that exist in the Sates, the patterns are very consistent in terms of the effects of enrollment.

There are some exceptions but generally they are quite consistent.

Mr. O'HARA. Let's take a look at table II.

Dr. LESLIE. This table is composed on the basis of a question we asked recipients, which was roughly as follows: Would you have attended a postsecondary institution if you had not received the aid? This table is composed in the affirmative—numbers and percentages of students enrolled as a result of having received aid.

We find that in New York's program about 31.8 percent say they would not have attended without the aid even though the average award was only $200 to $300. In California we also got a low figure and that would be because these are students who show a very high scholarship and they would have been likely to go to college even without—

Mr. O'HARA. It seems to me the figure is too high in California because you just described the California system to us as being one that was a tuition grant only.

Dr. LESLIE. I am sorry, the basis for the calculation is tuition. This excluded the community colleges.

Mr. O'HARA. And they are free community colleges so I can't see how these bright kids, 29 percent of them, could have gone to the community college for nothing wouldn't have gone at all.

Dr. LESLIE. The figure is only 30 percent which is considerably less than all of the States except New York. There were several ways of validating these data. In another paper I have written we talk about validation of these figures. They seem to be quite accurate.

Mr. O'HARA. I notice the average aid award amount varies considerably too.

Dr. LESLIE. The Pennsylvania amount and the Illinois amount will be roughly comparable to the average BEOG award this year, will it not, and the maximums will also be quite close in the area of $1,200? Mr. Voigt said $1,050 this morning.

Mr. O'HARA. Table II–A, those who would not attend college without aid. You show a different set of percentages.

Dr. LESLIE. These are correlation coefficients, or relationships between the amount of the aid and the decision to attend college if the aid had not been provided. In other words, for those students who say they would not have attended college without aid we wanted to see how the amount of aid affected their decision to attend college.

And, as you pointed out earlier, in California you would expect the relationship to be very low and it isn't, only .05, which is a very low correlation coefficient.

Mr. O'HARA. I have to confess I don't understand correlation coefficients.

Dr. LESLIE. It is just a relationship.

Mr. O'HARA. But over here on table II you said the number enrolled in higher education was a result of having received some assistance.

Dr. LESLIE. And this table II–A talks about amounts of aid. In other words, we expect the amount of the aid to be related to the decision to attend college. If we give the student only $50——

Mr. O'HARA. In other words, California gave the largest amount but had the lowest percentage to go to school.

Dr. LESLIE. And this is because these are bright kids who would have gone anyway.

Mr. O'HARA. New York, which had the lowest award amount but didn't have nearly as high a correlation as the New Jersey Scholar Incentive——

Dr. LESLIE. The range of the New York program in terms of the amount of the award was $50 minimum to a maximum of only $600 with the average being $203, whereas, in New Jersey the range was much greater than that, up to $1,000.

Mr. O'HARA. I am not sure I understand that scholarship incentive program of New Jersey.

Dr. LESLIE. That is a puzzle because you would think there would be a close relationship to the California program which is also a scholarship program.

Mr. O'HARA. That is right, it is the high and the low.

Dr. LESLIE. I think one of the differences is that the New Jersey program, the basis for calculating the cost was total cost and California was tuition only. It may have something to do with that. I don't have a good answer that satisfies me.

Mr. O'Hara. Let's look at table III.

Dr. Leslie. This is a table that compares the enrollment of the aid recipients in the public sector and the private sector to the enrollment of all students in the State. For example, if we look at New York we find that the aid recipients in the public institutions compose 64.5 percent—that is, 64.5 percent of the aid recipients attend public institutions compared to 59.5 percent for the appropriate comparison group of all students who attend postsecondary institutions in the State.

As it turns out, New York is one of the deviant cases and I explain that by the fact that the aid is so small. The typical States would be States like New Jersey. Probably Illinois would be the best representative State here; 55 percent of the aid recipients attend public institutions and 76.9 percent of all students in the State attend the publics.

This means, of course, that aid recipients are more likely to attend private institutions than are the typical students or all of the students in the State.

Mr. O'Hara. The explanation for that one is——

Dr. Leslie. The explanation is that when given the resources to do so quite a large number of students will attend private institutions rather than the public, but because the cost of privates are higher, without that aid they are not able to attend.

Mr. O'Hara. Why wouldn't that be true in Pennsylvania?

Dr. Leslie. I have talked with Kenneth Reeher, who is director of the Pennsylvania Higher Education Assistance Agency about that and we are agreed that the explanation goes roughly like this:

First of all, the Pennsylvania Higher Educational Assistance Agency has been a vigorous ongoing program for several years now and the shifts to the private sector that would have occurred have already occurred so that in 1972, when we collected these data we didn't get many students making the shifts.

The patterns were already established.

Mr. O'Hara. Maybe it is tuition levels.

Dr. Leslie. That is the second point. The second point is that in Pennsylvania private tuitions are not that much greater than public tuitions. The difference is very small. The ratio is about 2.2 to 1 in comparison to a national average of the order of 5 to 1: private to public tuition.

The redistribution has already essentially occurred in Pennsylvania.

Mr. O'Hara. I would gather that the gap—in fact, if you go right down your chart we find that the gap is very great in California between what the private and public tuition is, so you have accomplished a very considerable shift over into private.

In other words, the assisted student is more likely to go to the private institution than the nonassisted student.

Dr. Leslie. Particularly if the assistance is a large amount.

Mr. O'Hara. Likewise in Illinois, not as great as California but quite considerable, which would suggest to me the State system there has a considerably lower tuition level than the private institutions.

New Jersey is hard to figure because the one program they don't become eligible for unless the assistance——

Dr. Leslie. That is the tuition aid program.

Mr. O'Hara. Yes. So hardly any of them go to State institutions I imagine; that is, the professional schools, the State institutions.

Dr. LESLIE. I think that some of the New Jersey students are allowed to go out of State. I guess I don't have it on this table.

Mr. O'HARA. It may be the tuition is higher than in the professional schools than the State system and those are students going to professional schools. Otherwise, it would be zero.

That is interesting. One would consider private higher education is more desirable than public higher education, and there are a lot of people that think that, although I don't happen to be one of them.

Dr. LESLIE. Depending, of course, on the region of the country.

Mr. O'HARA. It would say that the assisted student has a better shot at the more desirable education than does the nonassisted student because he doesn't qualify under the needs test.

Dr. LESLIE. Correct.

Mr. O'HARA. Table IV.

Dr. LESLIE. The difference between table III and table IV is simply the difference in the norm groups. In table III I compared the attendance patterns of the aid recipients to the attendance patterns of all students.

But in table IV I compared the aid recipient attendance patterns to the most appropriate norm group, which would be the first-time full-time enrollment norms because we surveyed only the first-time recipients. So what you see here is that when we move to the most appropriate norm group, the trends I identified earlier for table III are more pronounced.

Here you see, for example, in New York the percentages are about equal instead of there being a larger percentage of aid recipients in the public sector.

Mr. O'HARA. And they are even closer to being equal to Pennsylvania.

Dr. LESLIE. That is correct. Other States maintain approximately the same relationship.

Mr. O'HARA. California, New York, and Pennsylvania, having the most neutral systems, I assume would be because the public tuitions are fairly high.

Dr. LESLIE. The New York case I think is largely explained by the very small amounts of grants available. The only real value of the New York data is that the average amount was about the same as that for the present BOG program.

Mr. O'HARA. Table V.

Dr. LESLIE. Table V compares the enrollment patterns by level. That is to say, those who attend universities, 4-year institutions and 2-year institutions. We compared our aid recipient percentages to the most appropriate norm group for the States which were first-time full-time enrollment norms.

I think if you look at the 2-year lines you get the clearest picture of what has happened. Again, if we exclude New York for the reasons we have already talked about, you would see that the aid recipients are far less likely to attend 2-year institutions than are norm groups students.

In California we can explain this for the reasons we have also gone over. But in other States like Pennsylvania and Illinois, I would not expect there to be that much difference because, after all, these are low-income students who traditionally have gone to the 2-year institutions.

The normal here is if you give students money, first of all, they are less included to spend that money at the most efficient, lowest cost institutions. That may be in large part because they don't get as much money to go to the lower cost institutions, but there seems to be another tendency in the interviews we conducted. Low-income students would really like to get away from home.

Mr. O'HARA. I think it is more than that. Most of these systems give them more depending on the cost of the institution so that you can get from the public authority twice as much if you are going to be going to the State university if you are better than the local community college, and twice as much again perhaps, just to use an example, if you are going to go to the private university rather than the State university.

Whereas, the unassisted student isn't able to feed that into his computation. He has got to scrape to get the money from the old man and he has got to be very careful about what college is going to cost.

And if he goes to a more expensive institution his summer job is not going to pay him more. He is not going to get any help from anybody so he has got to be a little more careful about where he goes in terms of cost.

Dr. LESLIE. In the slightly in excess of 200 interviews we conducted at Penn State there was quite an interesting pattern on the part of students. This was a very clear pattern that went something like this.

We said, "After all, you are in college. Where are you getting the money?" And their answer was roughly, "We are just scrounging for it everywhere we can, looking everywhere, picking up the money wherever it may be available."

Two young men said they were peddling dope. Many students used words like "sham" when talking about the expected family contribution, or "disaster." It is such a clear impression. Students sense that the expected family contribution is so unrealistic in terms of what they were actually getting from their parents. One fellow said, "The values. I grew up on a farm. My parents' values were such that I was considered legally and morally emancipated at age 18 when I graduated from high school so I get no money whatsoever from my parents to go to college.

"That is my parents value system. I don't object to it because it is my value system having grown up in their household." But he said that the people who do the needs analysis certainly don't take that value system into consideration. Because his parents apparently did have some money and could have, in fact, paid for some of his education he was penalized. Yet his parents' value system was such they didn't think it was their responsibility.

It seems unfair to penalize the student for that.

Mr. O'HARA. For that matter, if we are taxing assets in the needs analysis system and the principal asset is the residence, I think very few families would be willing to go out and remortgage it or sell it in order to finance——

Dr. LESLIE. I think you have put your finger on precisely the variable that explains this great difference between the expected and the actual family contribution to middle income kids.

The contribution schedules assume that a family will take into consideration their assets in giving their children money for college, and

I just doubt very much if there are very many families that would consider that at all.

Mr. O'HARA. I think they consider current income.

Dr. LESLIE. That is it, current income and what is left over. Of course they have a higher standard of living. I didn't hear a single student say that his family had been ready to alter drastically their standard of living.

Mr. O'HARA. Table VII, these are by numbers of students.

Dr. LESLIE. These are low numbers of students and they are useful in looking at the subsequent tables, VIII, IX, and X. Table VII shows how I did the calculations for VIII, X, and X.

These are the tables we talked about earlier. These show students whose attendance patterns were altered. We pulled out only those who say having received a grant caused them to change their college-going behavior. Some said they would not have gone to college without aid and others said they went to a different kind of institution as a result of having received the aid.

Now the fact there were so many students who said they wouldn't have gone anyway is why we see in table VIII that neither the public nor the private sector experiences enrollment deficits as a result of these aid programs because even the publics, who lost students to the privates, were able to pick up enough new students who wouldn't have gone anywhere to more than make up for their losses. So this is not a zero sum game here.

Mr. O'HARA. Except in California.

Dr. LESLIE. That is true. Also in the New Jersey tuition aid program.

Mr. O'HARA. Because we don't give aid if the tuition is $450.

Dr. LESLIE. And because of the California structure of low tuitions.

Then table IX examines the same thing: attendance shifts but this time by level. And, again, we can see the universities and 4- and 5-year colleges gain in the neighborhood of 20 percent and the 2-year colleges just slightly more than break even on the average and potentially would lose or break about even if we threw out California.

Mr. O'HARA. I imagine that 2-year college figure is really very much affected by the extent and cost of a public 2-year college system. In other words, if your State doesn't have a decent community college system then they wouldn't lose much by it.

Dr. LESLIE. That is true, they wouldn't have as much to lose. Of course, the California figures, although they differ from other States would be roughly the same for the BOG program because the BOG program is also based upon total cost, which would be much lower in the community college.

Mr. O'HARA. Then you have institutional size. I guess that is another way of looking at the shift from public to private.

Dr. LESLIE. I think I was more surprised by these findings than any other. This shows that students do prefer small institutions. That came as somewhat of a surprise to me. I guess it would to everyone.

There is a very clear linear relationship, a direct relationship, between the preference for small size and having received a grant.

Mr. O'HARA. And table A?

Dr. LESLIE. That is a Census Bureau table. The table simply shows that the group that is overrepresented clearly is the upper income group, and the group that is underrepresented is the lowest income group, and that the middle income group are represented in college by approximately the same numbers that they exist in the total population.

This is why I made the point about the effects of these aid programs penalizing middle-income students. What we are doing in these expected family contribution schedules, it would seem to me, is bringing the lower income group up where they ought to be but at the expense of a group that is not overrepresented at all.

Mr. O'HARA. We have examined some of these same kinds of charts over a period of time and we find the only income group where attendance is increasing—I see your figures come from 1966. The latest ones come from 1971 and the only group that has increased over that period of time are the less than $4,000. The others have all decreased over that period of time in terms of percentages of college attendance.

It came out of the Commission of which Mr. Dellenback was a member.

Dr. Leslie, thank you very much. We appreciate any material you can supply us with and look forward to talking to you some more.

Our last witnesses are going to be appearing on behalf of the National Association of Student Financial Aid Administrators, but before we hear from Mr. Purdy and Mr. Tombaugh, the Chair is going to declare a recess.

[A brief recess was taken.]

Mr. O'HARA. The subcommittee will come to order.

Our final witness today is another familiar face and name. Mr. Allan Purdy, who appears for the National Association of Student Financial Aid Administrators. He will be accompanied by Mr. Richard Tombaugh.

STATEMENT OF ALLAN W. PURDY, DIRECTOR, STATE AND FEDERAL RELATIONS, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, ACCOMPANIED BY RICHARD L. TOMBAUGH, EXECUTIVE SECRETARY

Mr. PURDY. Mr. Chairman, let me say that again we are pleased to be here to discuss some of the vital issues of financial aid programs as it relates to the grant part of the assistance combination.

I am Allen W. Purdy, director of financial aid services at the University of Missouri, and the National Association of Student Financial Aid Administrators' director of State and Federal relations. I am accompanied by Dick Tombaugh, executive secretary of the association.

We are pleased to have the opportunity to appear before you today to comment on the "grant component" of title IV of the Higher Education Act of 1965, as amended. The provision of student grants has always been the most controversial aspect of Federal student assistance.

Grants are subject to greater scrutiny than other forms of aid, which perhaps makes them more open to criticism. Yet, they are a very important element in a balanced student assistance program, and contribute greatly to our attempts to provide open access to postsecondary education. We will address our comments about grants in the order in which they appear in title IV.

We have appeared before this subcommittee several times in the past with our recomendations on the basic grant program. Most of those occasions, however, dealt with the regulatory function being exercised by the Office of Education.

Our recommendations for changes in the law are not extensive. They consist primarily of requests for clarification of congressional intent, in order to simplify the administration of the program.

Other recommendations have been advanced by us previously in our testimony on H.R. 13815, which we hope can be advanced through the Congress immediately, rather than being incorporated into a more comprehensive piece of legislation which may take a longer time to gain enactment.

Our first recommendation is in reference to section 411, which defines the term "actual cost of attendance." The cost of attendance did not cause much problem for the current year 1973–74 because the low level of the grant awards was not close to one-half the cost at most institutions, and almost all schools could use $1,200 plus as their cost figure without further delineation.

For the coming year, however, the problem is a very real one for all institutions with costs under $2,100. I would request that a letter from Mr. Wayne Tesmer, a vice president of NASFAA, to Mr. Peter Voigt be placed in the record to document this problem.

Mr. O'Hara. Without objection it will be placed in the record.

[The document referred to follows:]

North Dakota State University,
Fargo, N. Dak., May 29, 1974.

Mr. Peter K. U. Voigt,
Director, Division of Basic Grants, Department of Health, Education, and Welfare, Office of Education, Washington, D.C.

Dear Mr. Voigt: The eagerly awaited "Basic Grant Payment Schedule" for 1974–75 has arrived; however, I am deeply disturbed by the provisions of the schedule which dictate that actual individual cost data be established and utilized in determining the amount of the Basic Grant stipend.

Our office has delayed sending 1974–75 award notices to students pending receipt of the "Basic Grant Payment Schedule" with the expectation that the exact amount of the Basic Grant could then be determined and specified as a resource on the student's and award letter. This was considered essential to eliminate (or at least minimize) subsequent adjustments to individual aid packages. Because of late notification of BEOG Awards, most 1973–74 award letters mailed last summer did not include the Basic Grant Award and, as a result, hundreds of aid revisions were required when the BEOG recipients arrived on campus in the fall. These revisions generated an administrative burden of near chaiotic proportions—we do not relish the prospect of a similar ordeal this fall.

In spite of this concern, however, we discover that the provisions of the new "Basic Grant Payment Schedule" would create an administrative problem of even greater size and complexity. First of all, there is no conceivable method by which we can establish individual room and board cost figures for BEOG recipients until late summer or until they arrive on campus this fall; consequently, we will be compelled to either delete reference to the BEOG on the award letter, or establish an "average" cost and calculate an estimated BEOG stipend on this basis. In either case, we must again anticipate the administrative confusion of adjusting the majority of aid awards made to BEOG recipients.

Our overriding concern, however, is the increased complexity of the adjustment process resulting from a multiplicity of room and board options. For example, a student attending our institution next fall can choose from a total of fifty-seven board and/or room options, depending upon one of ten residence halls selected, 5-day or 7-day board contract, single or double room, etc. A student's selection of one of these options would prescribe the use of one of eleven separate cost figures for the BEOG computation. (Six of these cost figures fall below the $1,100 room, and board standard set by the "Payment Schedule," and four are above.) These eleven cost figures, in turn, would fit into one of five cost categories on the "Basic Grant Payment Schedule." (The problems discussed here do not involve our out-of-state students inasmuch as tuition charges for these students place them at a cost figure above $2,100; however, these estudents represent only 10–15% of our aid recipients. Total cost figures for ALL in-state students at our institution will be less than $2,100.)

The prospect of accurately determining which of the fifty-seven options will be utilized by the hundreds of individual BEOG recipients expected on our campus this fall is staggering. (When I called our Director of Housing to explore methods of gathering this data, he threatened to hang up on me!) I hesitate to even suggest the likelihood that many BEOG recipients will utilize more than one of these options during the course of an academic year, thereby significantly altering his educational costs and thus, logically, affecting the amount of his BEOG entitlement.

Utilization of actual cost figures will also create the near incredible situation whereby a BEOG recipient living at home one or two blocks from our campus could qualify for a Basic Grant stipend $74 greater than a recipient living in a double room in one of our residence halls on a 5-day board contract. It is also significant to note that the student on the 5-day board contract would generally pay cash for his weekend meals, whereas the student at home could pocket the $74 and eat with his parents.

Hopefully, the above will adequately demonstrate the bewildering complexity of a system which dictates utilization of individualized cost data for BEOG computations and provides reasonable evidence that more realistic and workable procedures must be devised.

I am aware that the legislation addressed itself to "actual cost of attendance"; however, it also specifies that the definition of this cost is "subject to regulations of the Commissioner." Accordingly, I would urge that the Commissioner prescribe cost standards which would enable the financial aid officer to establish the exact BEOG stipend prior to construction of a total aid package. I would propose that this could be accomplished by permitting institutions with total cost figures under $2,100 to utilize the $1,500 standard cost figure for all BEOG recipients. The institutional tuition charge would be added to this cost, permitting the aid officer to immediately establish the exact BEOG stipend. The student could then be notified of his total aid package and the confusion and administrative complications of subsequent revisions avoided.

Although the thoughts expressed here are my own, I have visited with each of the aid officers at the public institutions within North Dakota and I can report that, without exception, they anticipate major problems in establishing Basic Grant amounts for 1974–75 because of the actual cost of attendance provisions of the "Payment Schedule." It is logical to assume that this situation will prevail at most, if not all, of the moderate cost public institutions throughout the country.

I am convinced that we are dealing with an administrative problem of major proportions requiring prompt corrective action. Your careful consideration of the thoughts I have presented here will be greatly appreciated.

Sincerely,

WAYNE K. TESMER,
Director, Student Affairs.

Mr. PURDY. Briefly summarized, if actual costs are required for setting each recipient's grant amount, it is very difficult to establish the grant amount prior to actual enrollment.

Even then it means that some schools will have several dozen cost figures to use because of multiple room-and-board options and/or tuition and fees charged by the credit hour. At the present time, the Office of Education is interpreting "actual cost" very literally for those students who pay room and/or board to the institution, but is utilizing estimates for those who lives and/or eat outside the confines of the school. Mr. Tesmer's letter further defines the problem.

To summarize this letter just briefly, the regulations require us to go on the contract basis that a student makes with the dormitory on campus, and with different combinations of room and/or board it sometimes means this contract isn't signed until September, or it means there are so many different combinations that we can't tell the student now exactly what his grant will be.

One of the advantages of the basic grant was to be that the student would know and we want to tell him. But this particular technicality is making a lot of problems in the low-cost schools.

In order to resolve the problem, we would urge that the law be amended to provide that the "average" cost of attendance for students of similar circumstance be used in lieu of "actual" cost in the establishment of maximum grants.

Then an institution might develop four or five budget categories rather than being required to construct cost figures unique to each individual student. On the one hand, OE is presently saying that the determination of the family contribution can be a rough estimate because the grant is limited to one-half of cost anyway, and the other aid criteria can be more precise; on the other hand, they are saying that cost must be determined precisely—but only those paid directly to the institution—because the law requires it. Please relieve them of this need to be so perfectly inconsistent.

We would urge, as we did when testifying on H.R. 13815, that section 411 be amended to require that the Commissioner publish the family contribution scheduele in the Federal Register no later than April 1 preceeding the fiscal year of applicability.

Further, we recommend that the same date be the deadline for submission of that schedule to the Congress and that July 1 be the deadline for any congressional resolution of disapproval. The proposals in H.R. 13815 for changing these dates were good, but they did not set them far enough forward.

If this program is to ever serve its intended purpose, and actually be a floor or foundation source of assistance, States and institutions should know about BEOG outcomes by February 1 of each year.

Anything later will always find State, institutional, and local financial assistance already in place by the time BEOG notices are provided, necessitating time-consuming and confusing revision of aid packages.

More importantly, the BEOG simply cannot, under present conditions, be considered a motivating force for postsecondary enrollment, as the Congress intended.

Our next recommendation was also addressed in H.R. 13815. It relates to section 411 and the treatment of social security and GI bill benefits. This provision, particularly regarding social security, has probably deprived more needy students of BEOG support than any inadequacy of the family contribution schedule.

Our collective experience indicates that students from low-income families simply do not receive social security benefits for educational purposes, no matter what the intent of the legislation or the Social Security Administration might be. These payments are normally considered a family resource, not a student resource, and are pooled with whatever other income the family might have.

The implications of the GI bill treatment are not quite so clear, due to the fact that most recipients are independent students by definition. It does not seem to make any difference if the benefits are treated as a student or a family resource.

In any event, the exclusion of one-half of the benefits from consideration as a student resource provides an advantage to the veteran as compared to the nonveteran who is supporting his education from part-time employment rather than the GI bill. If this was the intent, it is working.

We would recommend that all social security and GI bill benefits be treated as "family" income and considered as any other form of income the family might have.

Section 411 (b)(3)(B)(v) provides that no payment under the scheduled reduction can be less than $50. A significant number of awards this year were in that amount. Grants of such small amounts accomplish very little.

Assistance to the student is almost nonexistent, and the cost of delivering the award to the recipient is probably greater than the award itself. We suggest that the minimum award be at least $100, and we see little need to vary from the minimum $200 award at full funding. If lesser amounts are not enough to be concerned about under full funding, why should they be more significant when the funding is less?

The past three administration budgets have demonstrated the wisdom of the Congress when it protected the campus-based student aid programs from "extinction by substitution." Had it not been for section 411(b)(4), there is little question that funding would not have been continued for the national direct student loan and supplemental opportunity grant programs.

We have already spoken to the continuing need for NDSL in earlier testimony. Later in this statement we will do the same for SEOG. While the Congress seems to appreciate these programs, the administration apparently does not.

For the past 3 years, Congress has appropriated constant amounts for the campus-based programs, even though the threshold level was less in the case of SEOG and college work-study.

In order to insure the continuation of these programs at least at the current levels, we recommend that the threshold levels be raised to $210 million for SEOG and $270 million for college work-study; otherwise, the advances we make in increased funding of BEOG will be diminished by decreases in other programs.

When we appeared before the subcommittee on April 11 of this year, we reported our concern about the lack of any recognition on the part of the executive branch, of the administrative burden which has been placed upon institutions by the basic grants program.

We referred to our request, frequently repeated, that the Commissioner use the authority already provided by the Congress to partially reimburse schools for the administrative costs being incurred.

I would ask that a letter from Mr. Tombaugh to Mr. Voigt last September be placed in the record, as it describes the problem most completely.

Mr. O'HARA. Without objection, it will be.

[The document referred to follows:]

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS,
Washington, D.C., September 17, 1973.

Mr. PETER K. U. VOIGT,
Acting Coordinator, Basic Grants Program, U.S. Office of Education, Washington, D.C.

DEAR PETER: I am writing to confirm our recent discussions about the need for some kind of reimbursement or allowance to institutions for the administrative costs associated with the Basic Grants Program. Although the Basic Grant is a non-institutionally based program in comparison to the SEOG, NDSL, and CW–SP responsibilities we now have, there still are significant investments of time and effort on the part of the financial aid and business offices involved. In fact, the administrative duties requested of the institution, because of the coordination required with the other programs, are only slightly less than the "college-based" programs.

In order to document this request for financial consideration, allow me to list some of the functions being provided by the institution for the Basic Grants Program.

(1) *Distribution of Applications.* Although we all hope that this year will prove to be atypical, a large portion of the distribution of applications fell to the post-secondary schools. My university and many others sent BOG forms to all admitted freshmen since the high schools were closed and could not be effectively used for distribution. As the program expands to include continuing students, much of the distribution load will fall upon the financial aid officer.

(2) *Counseling.* Much institutional time has been and will be utilized in counseling students and parents about the Basic Grants Program. The layman is easily confused about the number and complexity of the forms involved in the many financial aid programs, how the various programs interact, and the reasons for the varying outcomes. The only one location easily identified as being involved in almost all aspects is the institutional aid officer, and he takes the brunt of all such questioning. There is no doubt that the Basic Grant Program added immeasurably to this counseling load.

(3) *Preliminary Award Calculation.* While not very involved for each application, particularly this year when cost was not a factor at many schools, the sum total will prove to be considerable when cost becomes a variable and numbers become larger.

(4) *Revision of Previous Awards.* Again we can hope that the current year will be atypical and that future BOG determinations will, for the most part, be made early enough to be reflected in the original aid package. Realistically, however, there will always be a significant number of students who, for one reason or another, will not have BOG eligibility determined prior to the package and will require "reworking" by the aid officer.

(5) *Final Award Determination.* As with the preliminary determination, this function will become much more time-consuming when cost becomes a factor and numbers increase. The need to provide this step in the process at the time of registration compounds the responsibility.

(6) *Payment of Awards.* Whether done by check or crediting the recipients' accounts, the actual payment involves a significant exepnditure of institutional time and effort. The cost of producing a check is estimated to run from 65¢ to $1.00 each, and the accounting costs for crediting accounts is little, if any, less expensive, considering the need to obtain a signed receipt.

(7) *Accounting and Reporting.* Although somewhat difficult to gauge at this time due to the yet unpublished regulations, these functions presumably will be similar to the institutional responsibilities in the college-based programs. Hopefully, some of the procedures being forecast for this aspect, such as the personal signatures of the aid officer on each individual award form, can be simplified.

Thus, even though the Basic Grants Program is "advertised" as a non-institutional program in nature, the school indeed has a considerable involvement in the administrative process. In fact, the administrative functions are little, if any, less demanding than those of the SEOG program. While it is undeniable that the institution receives benefit from the program via the students it supports, it is increasingly difficult for the school to cover the expanding costs of operating the federal programs. As with all other elements of the federal assistance programs, we have need for a government-institution partnership in paying for the additional costs of operation. Thus, the National Association does not seek full reimbursement of these costs, but only partial relief for the expenses involved.

Since our last discussion concerning the provision of an administrative cost allowance to institutions for their part in the Basic Grant Program, I have asked a number of financial aid officers to provide estimates of actual cost to perform the various functions required. As you can appreciate, this is very difficult to do at this point in time because of the fact that we have not been through a complete cycle of operation, nor do the institutions even know what all the accounting and reporting requirements will be until the final set of regulations is published.

The estimates I have received cover a substantial range, probably dependent upon the functions included. They run all the way from $5.00 to $40.00 per application processed, but most are concentrated in the $10.00 to $15.00 range. Some of the variation depends upon whether or not data processing costs are passed on to the individual financial aid and/or business offices involved; whether or not professional staff time spent in counseling students and parents is considered; whether or not space and utility costs are prorated; etc. Pending more comprehensive review, when we have a year's experience under our belts, I would suggest the following hypotheses about institutional costs of administration:

(1) A "per application" allowance makes more sense than a percentage of dollars involved, since there is little, if any, difference in the cost of processing a small grant versus a large one.

(2) The "per application" cost is a function of the number of applications actually handled; there are basic costs of processing even one recipient, i.e., setting up the account, operating the letter of credit, filing the required reports, etc., which do not increase in direct proportion to the volume handled, while other costs are incurred on each application processed (for example, drawing a check for payment). Therefore, a sliding scale based upon volume would probably be the most fair to all concerned. A low flat rate would be satisfactory to larger institutions with greater numbers to process, but would be unfair to smaller schools. A flat rate sufficient to cover the costs for smaller "users" would unduly reimburse the larger volume schools. This may be an academic issue this year in view of the funds available for reimbursement, but should be considered henceforth.

(3) The cost of administration should be shared equally by the federal government and the institution. Although the institution is a beneficiary of the program, it is to the advantage of the Office of Education that these functions be carried on by the institution. Not only will the students be better served, but it will be less expensive to reimburse institutions for half of the cost than to perform the same functions within O.E. or contract out for the services.

Again pending evaluation after a year or so of experience, NASFAA recommends that the partial reimbursement of administrative cost be based upon the following formula: $10.00 per processed application for the first 100 recipients; $7.50 for each processed application over 100 but less than 500; $5.00 for each processed application over 500.

It is our belief that this formula will provide reimbursement approximating one half of the actual cost of administration at the institution.

I will be happy to discuss this proposal in depth with you at your convenience. Do not hesitate to call upon me.

Sincerely,

RICHARD L. TOMBAUGH,
Executive Secretary.

Mr. PURDY. At the same April 11 hearing, Commissioner Ottina assured Mr. Dellenback that such was still under consideration, but no decision has yet been announced. It seems obvious to us, in view of the stance taken by the executive branch with regard to similar proposals for guaranteed loans, that such reimbursements will not be forthcoming without a mandate from Congress.

We recognize that the institution benefits from the enrollment of basic grant recipients; we do not argue that fact. We do dispute the position that the institution can and should absorb all costs resulting from BEOG administration. We only ask that the cost be shared, as outlined in Mr. Tombaugh's letter.

Other Federal agencies provide for administrative costs incurred by institutions; the campus-based programs provide partial reimbursement. To suggest that the institutions have no significant role in the administration of basic grants is to ignore the obvious. We ask that language be added to the law to insure that the institutional role—and expense—is recognized.

Obviously, the association wants to see basic grants continued and expanded. There are many administrative improvements that need to be made, but the authorizing law needs minimal change.

We will continue to work with the Office of Education to resolve the regulatory problems that make the program difficult for students and institutions. We appreciate your continuing interest and concern for these practical matters.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS

It will be no surprise to this subcommittee that our chief concern about the supplemental grant program is its continuation. The cause of our concern is equally obvious. For 3 consective years, the administration has refused to request funding for SEOG, despite a legislative requirement to fund the program at at least $130 million before funding basic grants.

The Secretary of Health, Education, and Welfare has on numerous occasions publicly bemoaned the fact that continuation had been mandated. In an October 11, 1973 speech to the American council on Education, Mr. Weinberger described his plight as follows:

> The basic grants program was developed as a substitute—as an improvement if you—for several other Federal student assistance programs. But the Congress, while agreeing that the basic grants program is a step forward, refuses to cut loose the programs it was intended to replace. Instead, they insist on our funding these old programs as a condition of even letting us start the new grants.
>
> Earlier, Mr. Weinberger said, . . . the Congress made even this small beginning contingent on our maintaining old and ineffective programs at high levels.

There are several points in these statements that we could question, but I will limit myself to two. First, the suggestion that basic grants were intended to be a substitute must refer to administration intent: it was certainly not the intent of Congress. If so, why the addition of "Supplemental" to the title of the program?

Why the threshold requirements? Why the indication in the conference report that SEOG awards were for two types of students, those who did not qualify for a basic grant, and those whose basic grants were insufficient, because of institutional cost, to permit enrollment? It seems clear to us that the Congress did not intend that basic grants should replace supplemental grants.

Second, we question Mr. Weinberger's evaluation of the "old" programs as being "ineffective." We have earlier cited the study by the Columbia University Bureau of Applied Social Research under USOE contract which testified to the effectiveness of college work-study on providing assistance to needy students.

In fact, you received testimony directly from the chief author of that study, Ms. Nathalie Friedman. Interestingly enough, Ms. Friedman did another study for USOE on the educational opportunity grant program, about a year before the college work-study research.

The EOG research was, however, closely guarded by USOE after its conclusion. We can only conclude that the conclusion reached by the researchers, such as the following, had something to do with the scarcity of availability of this report:

> The major conclusion of this study is that the EOG program is achieving its primary objecive of enabling students of exceptional financial need to obtain an education beyond high school. EOG's are being targeted to the low-income/minority students.
>
> Institutions are engaged in efforts to recruit disadvantaged students, are waiving the usual admission criteria, and providing supportive services to overcome the academic handicaps with which many such students enter.
>
> Although institutions encounter problems in administering the program, they overwhelmingly attest to the program's success and hope to expand it within the next few years. Financial aid personnel are firmly committed to the goal of aiding the most needy students; they are seriously attempting to follow official guidelines.
>
> The primary concern, however, is how to meet commitments to increasing numbers of students, in the face of costs which are rising disproportionately to appropriations.

Granted that this is only one study, but it was done independently of the Office of Education without any vested interest to protect. It hardly sounds like the description of an "ineffective" program by most anyone's standard.

All of this is to say that supplemental grants are not ineffective, and that they are just as needed now as before the advent of the basic grant. They are needed to assist students who cannot qualify for basic grants because of the restrictive nature of the eligibility criteria, yet are exceptionally needy; they are needed to provide choice of enrollment in higher cost institutions; they are needed to assist veterans and other independent students with greater expenses, even at relatively low-cost institutions; they are needed to help students with special needs that cannot be met with the usual load of work and loan, such as welfare mothers, academically disadvantaged individuals who cannot be motivated to aspire to furthering their education by the promise of substantial loans;

They are needed to respond to sudden changes in circumstances, like the death of a parent, which would take weeks or months to become reflected in the basic grants award. For these reasons and others too numerous to convey here, we urge the Congress to continue the supplemental grant program.

We want to recommend some refinements in the current law which will help with some of those administrative problems to which Ms. Friedman referred. The number of changes needed are not great, but they are important to the day-to-day operations of the program.

It was interesting to me this morning, parenthetically, to hear Dr. John Phillips refer to the Friedman report and actually give it more publicity than OE as in previous times, again, testifying to the effectiveness of the program as it has been operating.

Perhaps the most troublesome aspect of the program is the current differentiation between initial and continuing grants. Section 413(b) provides separate authorizations and calls for separate appropriations, yet a lump sum appropriation has been made each of the last 2 years.

The first time USOE ruled that all awards were initial because SEOG was "new." The second time, the appropriation was split by USOE, based upon a Senate committee report. Beyond the appropriations problem, however, is the complication of making two types of awards and keeping the funds segregated for no apparent good reason.

Perhaps as much as half the administrative headaches come from the need to make separate requests for initial year and continuing year money, adjust packaging strategy when they are funded at different levels, compensate for too little of one type and too much of the other (the institution is not allowed to transfer from initial year to continuing year or vice versa) or keep track of whether the student is to receive initial year or continuing year money, and maintaining separate accounting records.

There are adequate safeguards to control the maximum size of the payment, in any one fiscal year or cumulatively, and to restrict benefits to a given period of time. We see no need for the initial year-continuing year distinction and complications which arise as a result of it.

We would urge that one authorization of $400 million replace the current $200 million for initial grants and "such sums as may be necessary" for continuing grants. The $400 million level approximates the panel-approved institutional requests for the two types of SEOG combined in each of the past 2 years. Table IV provided earlier to the House Appropriations Subcommittee, reflects the growth of the SEOG program over the years.

Sections 413 with its subtitles, restricts the amounts of the grant to "one-half the sum of the total amount of student financial aid provided to such student by such institution." Subsequently, "student financial aid" is further defined, but the definition excludes several legitimate types of assistance which should be acceptable as a "match" for supplemental.

Rather than ask that the definition be expanded, however, we recommend that the restriction itself be removed. It has always been subject to interpretation as to what is acceptable as constituting the other one-half.

It precludes the provision of the most appropriate aid package to students who should not be working or borrowing as much as they are currently required to do. It is difficult to explain to a student why he or she must accept—and actually borrow or work—other forms of aid in order to receive—or keep—the grant, even though the off-campus job held pays the same amount but is not an eligible "match." Again, there are sufficient safeguards against abuse to make this restriction unnecessary.

Our next recommendation relates to section 413C(a)(2)(C), which limits eligibility for a grant to those of "exceptional financial need." The current law prescribes what is to be considered in determining financial need, but it unfortunately does not define the term "exceptional."

This void has caused the Office of Education to regulate a definition of "exceptional financial need" which, as you might expect, largely eliminates the flexibility of the aid officer to use the grant in response to the unique needs of the student.

One proposed definition was so restrictive that the uproar of the aid community caused it to be shelved before it was even published in the Federal Register. The replacement definition, which has been published the first time, is an improvement, but it still stymies the use of sound professional judgment on the part of the aid officer.

Briefly, a student does not have exceptional financial need, and is thus ineligible for a grant, if the parental contribution, the student's savings, and the student's earnings combined exceed one-half the cost.

For most students in most circumstances, that is not an unreasonable definition. It does, however, work to the disadvantage of a significant number of students who are earning a substantial portion of their own expenses or have working spouses.

While the earnings may be sizable enough to exceed one-half the cost, the remaining gap is likely to be considerable. With all reasonable earning power already employed, the only other alternative in many cases is borrowing in large amounts.

For students who must restrict their working or borrowing, SEOG assistance becomes critical to their enrollment, even though their family contribution may exceed one-half the cost.

This problem could be handled by regulation. In order to make clear the intent of Congress to provide for the professional judgment of the aid officer, however, we would suggest that the following definition of exceptional financial need be written into the law:

> A student is of exceptional financial need if the amount of need remaining, after consideration of any parental, spouse, or student contribution and other gift aid available, exceeds the amount that student could, in the judgment of the institutional aid officer, be reasonably expected to borrow or earn.

We believe that this definition makes clear the expectation that a student should not routinely be given grant assistance without any consideration of other alternatives, yet gives the aid officer discretion to tailor an assistance package which is most appropriate, in his judgment, for that student.

Our final recommendation on supplemental grants deals with the State allotment formula. For the reasons given in earlier testimony, we urge the adoption of the formula recommended for the college work-study program in the distribution of SEOG funds.

You will recall that formula to include consideration of high school graduates and the concentration of low-income families within the State, as well as the number of half-time (or more) students enrolled in eligible institutions of postsecondary education. The Commissioner would retain 10 percent of the appropriation to distribute at his discretion to best achieve the purposes of the program.

NASFAA firmly believes that these changes will enhance our ability to administer the SEOG program in accord with your intent and consistent with student needs.

Grants to States for State student incentives: It is difficult to make recommendations for amending a program which is yet to be implemented, and we shall refrain from doing so. Rather, we will simply support the concept of providing incentives to the States to increase their own expenditures for student aid, recommend extension of the program authorization and hope that the concept is effective and that funding will be provided.

SPECIAL PROGRAMS FOR STUDENTS FROM DISADVANTAGED BACKGROUNDS

Most financial aid officers are not involved directly in the programs authorized under this subpart of title IV. Nevertheless, we are vitally affected by the success of each of the programs.

If they succeed, we have more aid applicants with whom to deal. Because the degree of success being achieved is so difficult to evaluate, we can give you only our subjective opinion.

While some projects are more successful than others, we feel that these programs are quite effective overall. The fiscal resources which could be used for these types of programs are probably infinite. However, until we have more financial aid to make available at the conclusion of these compensation and motivation efforts, the current authorization may be the maximum which can effectively be used.

We will not attempt to speak to the institutional grant programs authorized in title IV. They have or will be addressed by other groups or individuals more qualified to comment than are we in NASFAA.

We appreciate the opportunity to present our views to the subcommittee. We will be happy to respond to questions. I regret that Mr. Dellenback is not here. I would welcome the repeat of some of the questions that were posed earlier.

Mr. O'Hara. Mr. Purdy, one aspect of your testimony that particularly interests me has to do with the effect that the changes you suggest, or definitions of "exceptional need" might have on the allocation system.

To wit, the allocation system currently involves institutional requests approved by panels, and so forth, to determine the allocation among institutions within a State once the State's allocation eligibility has been determined.

If you had a definition of exceptional financial need as flexible as that you suggest at the top of page 11, I kind of like your proposal for such a definition, what does that do to the institutional allocations as determined by the panels if the institutional aid officer at institution X takes a more liberal view of how much the student could be reasonably expected to borrow or earn than the institutional aid officer in institution Y?

X's request is apt to be proportionately larger. What would you anticipate the panel would do with that? And as long as we have a system that allocates by panel system within a State, don't you expect the panel would then equalize?

Mr. Tombaugh. There are a couple of points I want to make there. First of all, the institutions requested funding this last time without any guidelines as to what exceptional financial need was.

The applications were filed long before we had even proposed these definitions.

Mr. O'Hara. What do the panels do; do they attempt to equalize the judgments of the institutions?

Mr. Tombaugh. In the first place, the request did not increase proportionately just because there were no regulations in effect. In fact, the panels reduced the approved requests over what they had been in the previous years, so I think they did.

There are some bases on which the panels could make a judgment of that, based upon the proportion of very low income and disadvantaged students who are the ones who are least able to work and can least be expected to borrow.

So they do have some guidance that they can use in developing those decisions. My overall evaluation would be that it won't change the mix of the requests very much at all. It will simply allow them to work with individual students instead of having to fit everybody in the same mold. I think the overall end result would tend to be about the same as it has been with respect to institutional requests.

Mr. **Purdy.** I would certainly add that I would not anticipate that it show up as any great change in institutional requests but would indeed enable a greater equity to be exercised in the packaging of the individual's aid.

Mr. **O'Hara.** I am trying to recall back to the discussion that led to the adoption of the 1972 amendments, and as I seem to recall it now, there was a good deal of criticism of the institutional based programs on the ground that at one institution students would be found eligible for assistance who couldn't come anywhere close to qualifying at another institution and one of the reasons for BOG allegedly was to provide some uniformity. Wouldn't you really enhance that argument?

Mr. **Tombaugh.** I think it lends to it, but I think a more primary reason for the differences that were experienced between institutions was the level of funding that was available at the institutions, rather than any deep-seated philosophical differences of opinion.

In one institution they had enough EOG money to take care of anybody under $7,500. At other institutions they couldn't even fund all those under $3,000. When you have that much variation in the funds available, you get different decisions. A really poor student was better off to pick an institution that didn't have many other really poor students because there wasn't as much competition for the funds.

But it didn't mean the aid officer had any different philosophical viewpoint.

Mr. **O'Hara.** In other words, you say this wouldn't make that problem any worse?

Mr. **Tombaugh.** I don't think so.

Mr. **Purdy.** I wouldn't expect it to make that problem worse. Obviously, as long as people make decisions there are going to be variations in the decisions that they make. This is true with financial aid officers and this was mentioned in earlier discussion here this morning, the difference in the experience and competency of the aid officers in their grantsmanship when requesting funds.

There is always going to be a difference in the initiative and aggressiveness of students, of people, whether they be aid officers or Congressmen representing their people back home. In that case I would say the people in Michigan and Oregon are very lucky in having aggressive, competent people representing them.

Some institutions pay their financial aid people better than others. There are always going to be some differences, but I think we could lose sight of some of our fundamental objectives if we say that the whole thing is going to be solved by a computer program and take the human element out of it.

Mr. O'HARA. I believe in giving discretion on judgment though I have been a little disappointed by the results because I remember we did that in connection with the guaranteed student loan program but we found a great reluctance to do anything except go to the needs analysis system and have it spit out an answer which you could then be sure you could show an auditor.

Mr. PURDY. We had quite a discussion here one day on that point and the effect of what we experienced when an auditor comes around with the OE directives. As I say, there was quite an exchange of correspondence, as you will recall, because of some of the experiences we had back home with the independent auditors having been instructed by OE.

So there is that problem and there will always be, I am sure.

Mr. O'HARA. I would like to chat with you more but there is certainly mischief to be done to the public interest today in the Capitol. They are underway 20 minutes. I don't know what they will do without me.

Mr. TOMBAUGH. Could I make one observation before you go? Your discussion with the Office of Education people about the apparent consistency in the State expenditures on this program as compared to work-study concerns me. I would not want you to go away misled that this formula is better than that one, because of the fact that of those States that are listed, all but three of them have the minimum, so they were all raised to one constant percentage in order to achieve the statutory requirements of the minimum base.

That just means all of these are less funded than they were in the other programs. It is not proof that this formula is better than the others we have. In fact, it is probably quite the contrary.

Mr. O'HARA. Yes, and they brought the bottom ones to the minimum level.

Mr. TOMBAUGH. And all the States represented by the subcommittee happen to be on the bottom and were brought up to the constant level, so the variation was just as much, I would suggest, if you look at all 50 States in this program as they are in the others. They just don't show up as much in this particular table.

Mr. O'HARA. I am not sure we ought to have State-by-State allocations. Maybe we ought to just deal with the institutions, get panel-recommended amounts, a uniform amount all over.

Mr. PURDY. There was one other point that was mentioned in the earlier discussion this morning, the apparent discrepancy of the fact that there are only some 2,800 institutions in the SEOG program while maybe some 6,000 are in the basic grant program.

The facts are, anytime a program comes in and the rules are changed, it takes a while for the acceptance and appetite to build up, and the 2,800 that are in the program now have been growing into this program over a period of 9 years. Opening it up to the proprietary schools is a thing which will take them a little while to recognize and to learn the technique of applying funds and to use them.

The other thing is, when you get into terms of these vast numbers, of course, a lot of proprietary schools are small schools representing maybe 50 or 100 students, whereas, in these 2,800 you have your higher education institutions, some of which are representing 40,000 students.

The stated discrepancy there doesn't have the significance that might otherwise be suggested.

Mr. O'Hara. Thank you very much for that observation.

The subcommittee will now stand in adjournment until 9:30 tomorrow morning in this room.

[Whereupon, at 12:25 p.m. the subcommittee recessed, to reconvene at 9:30 a.m., Wednesday, June 12, 1974.]

STUDENT FINANCIAL ASSISTANCE

(Grant Programs)

WEDNESDAY, JUNE 12, 1974

House of Representatives,
Special Subcommittee on Education of the
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:15 a.m., pursuant to recess in room 2261, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (presiding).

Present: Representatives O'Hara and Dellenback.

Staff present: Jim Harrison, staff director; Elnora Teets, clerk; Robert C. Andringa, minority staff director; and John Lee, minority staff.

Mr. O'Hara. The Special Subcommittee on Education will come to order. We are continuing our hearings on title IV of the Higher Education Act, the student assistance programs.

Our first witnesses this morning are Kathleen Brouder, education director of the National Student Association and Chip Berlet, editor of the NSA magazine.

As with our other witnesses yesterday and today and our witnesses tomorrow, they have been asked to talk primarily about grant programs from the point of view of their own experience and the views, of course, of the National Student Association.

So we would like to have you come forward and take places at the witness table and talk to us about your experiences with the grant programs from the student's point of view.

STATEMENT OF KATHLEEN BROUDER, DIRECTOR, EDUCATIONAL AFFAIRS, U.S. NATIONAL STUDENT ASSOCIATION, AND CHIP BERLET, EDITOR, NSA MAGAZINE

Ms. Brouder. We would like to thank the committee for inviting us here today and certainly welcome the opportunity to express some of our association's concerns about student financial aid programs, particularly the grant programs as they impact on our constituency of 700 2- and 4-year colleges and universities across the country.

By default, we feel that we must speak for another constituency as well, the thousands of persons who have been forced to terminate their postsecondary educational pursuits, or who choose to forgo such pursuits because they and their families are unable to meet the spiraling costs of postsecondary attendance.

But we all know that such a constituency exists, and that its ranks will swell with every substantial tuition increase, particularly in the public sector, by at least the 2.5 percent cited by the National Commission on Financing Postsecondary Education as the probable enrollment decline for every $100 tuition increase.

It is our hope that the Congress, and particularly this committee, will become the chief defender of, and advocate for, that invisible constituency.

Attached to the text of our primary remarks is a copy of The NSA Magazine's special edition on financing postsecondary education. I would like to draw your attention to three articles in particular which we see as being part of our testimony today.

These three articles most clearly reflect the association's positions on the related issues of student financial programs and overall financing patterns and strategies for postsecondary education. We hope that this committee will enter these documents into the records of these hearings where it deems appropriate.

It is our intention to articulate here a set of student-oriented principles that we believe must be incorporated into student financial aid legislation if the resulting programs are to support equality of educational opportunity as a national goal.

It is crucial that the Congress recognize that student financial aid programs cannot be legislated apart from a critical evaluation and reworking of overall financing strategies and patterns.

We are particularly worried that many State legislatures, caught in the web of rising educational costs and competing demands for limited resources, will begin to reduce institutional aid and substantially increase tuitions as a compensatory measure.

The Federal Government would then be forced to effectively pay for State tuition increases by legislating new student aid programs, simply to pick up the slack. For that reason, we think it is essential that the Federal role in both legislating student financial aid programs, and in developing cooperative financing plans with other public and private sources, be an active rather than merely reactive one.

Forging an active Federal role not only promotes efficiency, by fostering long-range planning over knee jerking, but promotes greater equality of opportunity as well. Only through a national coordination of public and private efforts at all levels can there be developed some minimal guarantees against discrimination because of place of birth or residency. If this Nation's commitment to equality of opportunity means anything at all, it should at least mean that a citizen of New Hampshire has approximately the same degree of access to postsecondary education as does a resident of New York City. The disparities in cost—not to mention content, quality, and diversity—that currently exist from State to State are staggering, and are scarcely alleviated by the penalties levied against students who go out of their home States to get a higher education.

Mr. **Berlet.** One of the three major principles we would like to enunicate is that the overall level of Federal spending is not sufficient. It must be increased substantially, especially for BOG's.

A portion of moneys devoted to grant programs should be allocated in such a way as to stimulate greater financial contributions by State and local governments—such as in the SSIG program—as well as by private sources.

We cannot convey strongly enough our feeling that the periodic struggles over postsecondary education appropriations are little more than fighting over table scraps, particularly when compared to the level of Federal spending in other areas.

Senator Proxmire, for one, has suggested that increased aid to education could

> easily come out of the massive fat and waste in military procurement, excessive overseas bases and troops, and the dilatory and gold-plated weapons such as the new carrier, the B-1 bomber and the F-14 fighter plane.

To illustrate, and this is a severe problem with the supplemental educational opportunity grants program, I would like to do a comparison of some funding according to the fiscal 1975 budget.

Each silver dollar represents a billion dollars in terms of Federal spending. The higher education portion is $2.229 billion, to be exact, for the Office of Education's higher education programs [stacks two silver dollars on witness table].

For the Office of Education, for preschool through postsecondary, you get $6.15 billion allocated to the Office of Education. That is about this much [stacks six silver dollars on witness table.] When you are talking about the Department of Defense, you are talking about $85.5 billion [stacks 85 silver dollars on witness table].

As you can see, you have only about $2 billion for higher education and $6 billion for education in total. That is quite a difference, especially since the increase in the fiscal 1975 budget for the Department of Defense last year is $6.3 billion. That is more than the Office of Education allocation entirely and three times the higher education budget, and that is just the increase.

We think that is just incredible.

Mr. O'HARA. That is not counting the cost overruns either.

Mr. BERLET. For instance, the cost of one Trident submarine is $1.3 billion, and that is the same amount requested by the Administration for one year of BOG's. And there are 10 Trident submarines planned.

For those of you who are interested in these kind of comparisons, the Federal higher education budget, if cashed into dollar bills and laid end-to-end, would almost complete two round trips from Earth to the Moon.

The Defense budget dollars would complete 68 round trips from Earth to Moon, and if placed in a straight line, the military greenbacks would stretch over 32 million miles and reach all the way to Mars.

In short, we believe that without a substantial increase in the overall level of spending for postsecondary education, student financial aid programs will never be legislated to the level of overall need; that is, to the level that would actively encourage student involvement in education, rather than grudgingly allow it.

As presently funded, BOG's provide barely enough money to buy textbooks and materials. It is definitely not going to provide access at its present levels. It does provide extra money for those people who can already afford to go to college.

But in our tours around the country when we have our area conference we find students are saying,

> "I am a freshman now—I am a sophomore now. I am getting some BOG money but it isn't what made the difference in terms of going to school. It made it easier. It perhaps allowed me more choice within some of the schools I had picked but it didn't provide access at all."

I thought that was supposed to be the stated goal of the BOG program, to provide access, a floor from which to build on. It is just not doing that. If you are going to talk about BOG's you are going to have to talk about fully funding them because it doesn't seem to be working.

Ms. BROUDER. The second major principle is that eligibility requirements for Federal student aid programs be expanded, and defined in the broadest possible terms, to increase opportunities for students and prospective students, particularly persons coming from sectors of the population that have been historically underrepresented in postsecondary education.

We have talked to many students who are trying to attend school on a part-time basis who feel, as do we, that it is entirely unreasonable that they be discriminated against in the awarding of more desirable forms of student financial assistance, particularly since the reason so many of those part-time students opt for that kind of arrangement in the beginning is that they are providing some or all support for dependents beyond themselves and obviously have a high degree of financial need.

Another category of students that is not covered at all is the independent student or one who has achieved the age of majority and therefore can make no legal claim on parental support. That independent student is frequently also the victim of discrimination.

That kind of discrimination usually takes the form of awarding more undesirable forms of financial aid if aid is awarded at all. The fact that women, ethnic minority students and older students comprise such large portions of the part-time student and independent student category makes it particularly difficult because if there is one reading we have gotten all year long it is that private lending institutions are simply not as willing to even loan money to women, to older people and to third-world students.

One of the things we call to this committee's attention is a draft of recommendations made by the Student Caucus at a recent conference in Texas on the independent student. Those recommendations deal primarily with financial aid programs with both grants and loans an attempt to create the new definitions for what the independent student is, and therefore more enforceable and less discriminatory.

The corollary to broad definition of eligibility has to be broad-scale dissemination of information about the various programs. We have been appalled to discover how many students don't even know what a BOG or SEOG is, let alone what their respective eligibility requirements are.

Last week we received a call in our office from a woman in Nebraska who heard somewhere about the national student defense scholarship program. We determined she was inquiring about the national direct student loan program, but our name was the closest approximation she could find in the District of Columbia directory.

When people are reduced to looking in the phone book for information about student financial aid, I think it is a good indication that the dissemination mechanisms are pretty poor.

Mr. BERLET. It would be a relief if I could say the only problem with higher education programs in terms of Federal student assistance is lack of money. That isn't the case. I think we are all aware of that.

More money, of course, would help, but some specific proposals also would help. For instance, increasing the maximum BOG level from one-half to three-quarters of the cost of attendance.

We support the expansion of existent programs primarily as an interim measure, which brings us to our third but primarily principle: That the best form of student financial aid is low or no tuition.

Basic opportunity grants are fine, but if you are going to lock grants into increasing tuition you are going to lock yourself into a spiral that is going to drag money out of the Federal Government always behind the increasing tuition. There is always going to be a gap and it is going to lock tuition and aid in an upward spiral.

Since 1965, the National Student Association has supported the concept of tuition-free public higher education for the purposes of "furthering the freedom of the individual and the critical spirit which insures a dynamic and democratic society." That was a resolution we passed in 1965.

We believe that low or no tution in public postsecondary education, when coupled with carefully targeted supplemental aid to help students cover other costs of attendance like books, travel, and personal maintenance is the best way to support the goal of maximum access to postsecondary educational opportunities for all Americans able and willing to pursue that goal.

Consequently, we believe that encouraging State legislatures to keep public school tuition as low as possible, perhaps through the development of incentive programs, is a more than appropriate Federal role.

At the same time, we realize that the concept of low-cost public education at the postsecondary level has been seriously jeopardized by the critical combination of declining enrollments and increasing costs.

Most recently, the low-tuition or tuition-free systems of public postsecondary education have been dealt a severe blow by the issuance of three major reports that call, directly or indirectly, for tuition increases of as much as 50 percent as the only viable strategy for alleviating the financial squeeze in higher education.

The National Student Association believes that such massive tuition hikes would severely restrict access for students from low and lower middle-income levels and ethnic minority backgrounds.

I would add here that the groups we are talking about are what are normally referred to as the working class, the typical Michigan autoworker represented by Congressman O'Hara, if you will.

There are Federal programs that cover some low-income families. Hight income families can afford to go already, but there seems to be no programs that affect the middle income and working class families.

We feel the best way to deal with this problem is low tuition, not subsidies. We do not believe that Federal financial aid programs will offset tuition increases because we don't think that such programs have ever been legislated in a timely fashion, or funded to the level of overall need. Students and their families cannot absorb these increases.

We don't believe that such increases in tuitions would make the private postsecondary sector "more competitive." After all, when hamburger prices soared last fall, consumers didn't turn to sirloin because the price gap between the two was closing. They simply went without beef.

What we do believe is that the level of enrollments throughout the postsecondary enterprise as a whole will decline, and that higher education will once again become the exclusive domain of the white sons of the wealthy.

We also would mention here the guaranteed student loan program. I was trying to explain guaranteed student loans at one of our area conferences in Atlanta. One of the people involved in the seminar said,

> Look, when I was first thinking about going to school I went from bank to bank to bank. They all said money wasn't available, this, that and the other thing. I always got a run-around until finally one banker sat me down and said, "If your daddy had an account here we would probably try and get you a loan, but your daddy doesn't have an account here and we are not going to take the time put up with the bother and the rate of return we would get on the loan, so your best bet is to go back to your home bank and see if you can get them to give it as a favor."

Loans are hard to get in the first place, and often dispensed as favors. This is not the way to build access to higher education through loans. Also, there is the problem of creating a position of indentured servitude to the Government and the banking interests.

I recently received a phone call from a woman who was crying. Her husband just received a court order to appear in court to explain why he hadn't paid his loan back. She was simply not aware of any of the mechanisms for delaying payment. Her husband has been without a job for some time and she simply didn't know what to do. She was at her wit's end.

This is a common problem. People who take out loans graduate and are unable to find the kind of job that would allow them to pay the loan back on time, or they are unable to find work at all. We are very afraid of loans as a tool other than to provide liquidity for family income.

Dr. Carol Van Alstyne from the American Council on Education, talks about another problem. She has pointed out:

> Many of us obtained our undergraduate degrees for no tuition or low tuitions and a few dollars a semester in student fees, and now, when it is our turn to help pay for educational opportunities of the upcoming student generation, we renege and shift more of the burden to the students. It would seem that the current student generation, particularly the lower-income students, could be justifiably outraged.

Also, the educational system is not a place to redistribute income. Progressive income taxes are the place to redistribute income, not regressive edutaxes.

We would like to impress upon this committee that the current student generation is not only angry, but prepared to fight the shifting of burden that Carol Van Alstyne talks about. But we think that our constituency is also prepared to fight for something: For a reworking, not only of financing patterns, but of institutional missions for postsecondary education. We believe, and our membership believes, that everyone benefits from a well-educated society—from the products its produces, the technology and arts it fosters, the increased earning power and consequent tax revenues it yields, and the increased sophistication of the voting and consuming public it develops. If we believe that it is better to be an educated society, then the price for that level of civilization must be borne and shared equally by all of us. It is our hope that this committee, and the entire Congress, will begin to evaluate and design student financial aid programs for their effectiveness in moving toward a postsecondary educational system that is open to all because it is free to all.

Thank you for your consideration.

Mr. O'HARA. Thank you very much. It was all I could do to keep from cheering at several points in your testimony. I want you to know I heard tens of thousands of words of testimony but I never heard any witness put his or her finger on the salient points better than your testimony.

I think we ought to have this printed up in quantity and sent around. I particularly like your observation that we ought to quit trying to think of higher education as an income redistribution system and ought to start thinking more about our income tax system.

I can't find much to criticize. Maybe Mr. Dellenback will help me out, but it seems to me that you are right, our first goal ought to be your statement on page 5: "The best form of student financial aid is low or no tuition."

You also observe in your statement that we ought to try to find a way to promote greater effort by the States. Those are two points that I think ought to be absolutely clear. There is a vast discrepancy among the States in terms of the amount of assistance they provide to their young people to assist them in attaining their higher education.

It isn't as great as it once was. The gap has been somewhat closed. But still, a number of them leave something to be desired in their own support of their citizens seeking a higher education.

I think we do have to find ways to encourage the States to do more. Unfortunately, some of the reports that have been coming out have encouraged the States to do less. They have encouraged the people within the States who have been fighting low-tuition education all these years to redouble their efforts.

That is, I think, one of the most disturbing things. That is why I immediately jumped on those recommendations and became very critical and vocal about it, because I didn't want to see that kind of encouragement given to those who like to cut back on State appropriations for higher education.

Mr. BERLET. We are especially afraid that with the present design of Federal student assistance, the States are going to start looking at the Federal Government as a crutch. States will continue to raise their tuitions and say, "O'Hara is going to increase the BOG this year."

We are terrified of that possibility because the States should have a primary commitment to education. They should not be sloughing off the responsibility to the Federal Government. We would like to see some programs developed that would be incentives to States to keep their tuitions low.

Mr. O'Hara. I sometimes thought in these programs an eligible institution ought to be defined, in addition to the things that now are a definition of an eligible institution, one that has not raised its tuition since the base date, whatever it is.

I suspect, just as you do, that many of the institutions, public and private, see the Federal program as an opportunity to raise their cost to the students and say, "The ones who can afford can afford it and the ones who can't afford it, Uncle Sam will pay the increase."

I just think we are going down the wrong road in a lot of ways here. We are going to make it more difficult to get a higher education instead of easier for the average family, for that autoworker's family.

We are going to make it tougher instead of easier. That is, in effect, what we have been doing, making it harder for them. We have got to find ways to get out of that box.

One of the thoughts that have been put forward over the years on this is maybe we ought to give some money to the States and say give them different amounts depending on what their own effort is.

If their own effort is very poor, we don't give them anything, but if they pick up their effort we start to give them something and say—

> What we want you to do is this, create no tuition or very low tuition opportunities for your residents. And we don't really care how you do that. If you want to go as California has and build a vast system of state colleges, state universities, community colleges, that is okay with us.
>
> If that hasn't been the tradition in your state and instead you want to do it some other way and provide tuition grants to students who are going to be attending private institutions, maybe that is okay with us too.

But, by our combined effort, we want to see a system whereby the residents of your State can attend school for nothing or next to nothing. What would be your reaction to some such program?

You want a chance to think that over, I suppose?

Mr. Berlet. Yes.

Mr. O'Hara. You wouldn't reject it out of hand?

Mr. Berlet. No, I think we like the idea.

Mr. O'Hara. I forget when I ask you that you are speaking for an organization and you can't very well go shooting from the hip. If you were individual witnesses——

Mr. Berlet. We would say definitely we would support a plan of providing grants to States to insure low tuition because that has been one of our mandates for 7 or 8 years now. We are pretty clear on that.

We would strongly support a program that would include what would be incentive grants to the States to keep tuition low or reduce their tuition.

Mr. O'Hara. Or provide tuition grants or whatever.

I am going to let Mr. Dellenback ask some questions. I am keeping my questions shorter than I sometimes do because we have our full committee meeting today and we have a bill we want to slip through.

Mr. Dellenback. We have a bill which Mr. O'Hara and I are cosponsoring to continue the CLEO program for legal education. We are most anxious to get that through, otherwise it is going to mean real cutbacks.

I join the chairman, Ms. Brouder and Mr. Berlet, especially in appreciation for your coming.

The thought did go through my mind when you gave us your dramatic example with the dollars dancing on the table that perhaps as we frequently do with reports, we ought to ask that the evidence be made part of the record.

Mr. **Berlet**. My boss would kill me.

Mr. **Dellenback**. Part of the problem we face jointly as we try to go forward with this, you as representatives of students and we who are striving to move forward in the area of improving access, improving choice and improving quality and a host of things at the same time, is that we have got a job of salesmanship.

Some of us learned that in land use planning yesterday when we were battering on a piece of legislation we think is important and we couldn't persuade the majority of the House it was important. We lost.

So it is in some of these things you have to do a selling job and a fighting job for where you would go. Those of us who served on the National Commission for Postsecondary Education trying to sort out the questions of just access and looking at what is happening in America, we just don't have it ideally.

We have really made some significant strides. And, compared to much of what has been we have moved along, "we" meaning the education system. But we have got a way to go still.

I like your idea of insisting that the overall level of Federal spending be increased substantially. I couldn't agree with you more. It has got to happen. The idea of using incentives to get the States to work their programs with the Federal in things like SSIG we are struggling on right now with the Appropriations Committee.

I think you see clearly, but I think it important it be seen clearly beyond just the two of you that it isn't just a case of what our subcommittee does. It isn't a case of what the Education Committee, it isn't a case of what the Congress does so far as authorizations are concerned.

We can set up a program like BOG, which, had it been fully funded, would have been a different situation today, which incidentally, from the testimony given to us, will, this coming year, make a very substantial jump over from last year.

Not only will we move from $122.1 million in appropriations to $475 million plus carryover, about $40 million, but we will find that that will result in substantial increases both in average grants and in maximum grants.

The maximum will go from $400-something to over $1,000. The average will go from $260 to something in the $600's so that it is going to make a very substantial move forward.

If we can keep that momentum going we will have made considerable strides. Right now, that is in the hands of the Appropriations Committee, not just the authorizing.

We have set the limit. We have set the program. It is there and written in the statutes. Now we have to get the dollars to make it work.

I point this out to you when we talk about going to a system of low or no tuition. Not only do we have to balance that off sellingwise against other uses of dollars, not just military dollars but a host of other programs, but we would face the question, if our goal is to move forward from here in getting into colleges and universities and other postsecondary education institutions, young people who are not in those institutions now, or older people who are not in those institutions now, if we dropped tuition today for all those who are not yet in institutions it would be at a great expense and I am afraid that what it would do is the cost would be so great that it wouldn't increase the number in institutions materially because it would have to be taking up the slack on all those who are now in institutions and paying tuition.

You see the point I make on it? If we can take the base of that which is and say we will take additional dollars to do something beyond this, that is one thing. But if we say we are going to change the whole system so that we take the dollars and even those who are now paying and can afford to pay are to get back everything they paid or to be relieved of future obligations to pay, that would be a swamp if we tried to do it in any degree of speed.

It would take all the dollars we have and we wouldn't have increased access at all. So, facing where we are at the present time, if our goal is to increase access, and I feel very strongly about that in a host of ways—income deprivation, sex deprivation, color deprivation, social deprivation, all sorts of blocks that stand in the way—you see the concern that I express.

So, don't get set too quickly into the third goal that you set up as the panacea. The first two are things that if we can move on immediately we can move forward from the present position.

My concern is about the third one. However attractive it sounds in words at the moment, it could be a morass. It could make no forward step at all. It could be, at worst, a backward step.

Mr. BERLET. We recognize our final goal, our third principle, is a long-term effort. That is why we put the other two first.

We like to think of interim policies as stretching across the number of years it is going to take to return to a principle of low tuition in public postsecondary education. It is going to take a long effort and a lot of money. We are aware of that.

So, if we say "interim," don't think of it as a dismissal. We are a bit idealistic about our third goal. We hope it will be reached. We are realistic enough to realize that it can't be reached within the next appropriation framework.

Mr. DELLENBACK. There is one other thing I would ask about. What about students attending proprietary postsecondary institutions; do you think there should be a workable, viable alternative for a student as well as customary traditional higher education?

There are a great many who think in terms of higher education as a place where you want the traditional college or university and maybe even community college.

We find a vast number of the institutions in the postsecondary field are not in that category, while the numbers of students are predominantly in the traditional institutions. The number of institutions are two or three to one more in the proprietary institution field and they are doing very valuable work.

Would you see access open for students across the board in postsecondary institutions, or would you see it only in public traditional institutions?

Ms. **Brouder.** I would say access should be across the board but we have some real problems about the rights of students in proprietary institutions. One of the areas I think our organization, and a lot of other organizations, are going to get into soon is investigating the ways students frankly get ripped off in those institutions.

I think there has to be some kind of accrediting system that makes sense before we just shovel students into those programs and schools.

The other thing we have to say is, as an organization we still do have a strong commitment to the idea of general liberal education and while we certainly don't support any kind of split in thinking that we indicate the proprietary schools and public postsecondary institutions come out of two different worlds, we would certainly like to think both kinds of programs and institutions would be about the business of helping to teach the public basic skills.

Mr. **Dellenback.** I would say in the first one, one ripoff is too many, and unfortunately, there are many more than that. The thing we must be very careful to keep clear though is that there are many fine, high-quality private proprietary schools and we can't damn the whole group across the board, and I am sure you don't mean to do that, because that would be unfair to the institutions doing a good job, and there are a good number of those.

At the same time, there are a lot of fly-by-nights who just don't do the job.

On the second one, I would say only this. I feel strongly that there ought to be freedom of choice in the potential student and even though you or I might, for ourselves or our children or our friends, say you get a better education doing it this way in the totality rather than the now, I think the greater principle almost is that we have the opportunity available and then you have the choice.

If what you wish to do is study just this skill, this technique and that is really all you want, you don't want to know about the higher realms of philosophy or to really study literature or history or language, or what you will, then even though I may think it may be better for any given student to have this background I think we have to be very careful not to force our values and our ideas on everybody at once.

Our task as those who are serving government should be bent to insure the opportunities are there, the access available and the student is free to make the choice. If that is true then I think we have the burden not to try to make it a homogeneous system that everything is alike and it doesn't matter which one you go to but that we really give them a choice, so there is a heterogenity that is mosaic instead of a blend, so it seems to me.

Do you have any fast reactions to that?

Ms. **Brouder.** Yes. I just want to say I certainly wasn't suggesting it wouldn't be opportunity or choice but with the trend to career education and the kind of discussion that takes place at public policy levels about the role of postsecondary education. I was simply observing that general education isn't being given a fair shake right now and that should be at least as much a choice as learning skills.

Mr. **Dellenback.** Thank you very much. I appreciate your contribution.

[Documents referred to follows:]

Equal Education Opportunity: Free Public Higher Education

A resolution adopted by the 18th National Student Congress in 1965

Two hundred years ago with the growing industrial revolution, the movement for free public elementary education was instigated. Technological advances demanded that the general populace be better educated in order to serve the needs of society and in order to take full advantage of the new possibilities provided by man's genius. Seventy years ago as a result of further scientific advances the nation realized the need for a concommitant advance in the education of the people. The increased complexity of society meant that people had to be better prepared to meet the challenges of the new science and society. Elementary education was no longer enough. High school education was made public and free.

In our generation, the world has been advancing at a far faster pace than ever before and thus demands that we extend public education still further. Technological and social revolutions have so computerized and complicated our communities that the direction of them is left only in the hands of the expert. Those who lack the expertise to participate fully in the democratic process and to enjoy the benefits of the affluent society.

In addition to the personal loss an individual suffers through the lack of maximum educational opportunity, the society as a whole suffers a compounded deficiency. Those not given the opportunity to develop fully often become the recipients of society rather than the contributors. All people must have the capacity to aid in the direction of social policies and have the information to criticize and pose alternatives. There is no rational choice in our day but to expand the opportunity for full education to all if society is to remain critical, dynamic and democratic.

The USNSA believes that in order to extend the personal development and freedom of every citizen and to extend the progress of our nation and the world, it is necessary to provide all people with the opportunity to educate themselves to their maximum capabilities. To these ends, USNSA finds it necessary for society to extend to every person the encouragement and the opportunity for post secondary education in a day in which rising world complexities demand ever more personal expertise and knowledge. Through a nationwide system of free public higher education these goals can be furthered. At the same time, USNSA recognizes the value of diversity in a system of higher education and supports the financial assistance of private institutions by all levels of government. USNSA thus expresses its support for the establishment of free public higher education throughout the United States financed by the local, state, and federal governments, with the purpose of furthering the freedom of the individual and the critical spirit which insures a dynamic and democratic society.

Extending the Concept of Free Public Education Four More Years

(By Larry Friedman,[1] President, USNSA)

The majority of students now enrolled in colleges and universities were in high school in the sixties. They were largely isolated from the wide-spread protest movement that culminated with thousands of demonstrators in Washington on May Day, 1971.

It is surprising now to consider that most of the present generation of college students were not directly involved in the problems and tactics of what was then called "The Movement". One of the major targets of student activism at that time was the university administration. The occupation of a university president's office or the administration building was a dramatic tactic common to many campus protests. Few could have predicted at that time that students, faculty, and administrators would, after taking opposing stands on so many issues, today find themselves allied in a common struggle.

Holding greatly differing positions on questions of university policy has become moot beside the larger question of the very existence of the university. The problem and the challenge of this generation of students will be the funding crisis in higher education. Finding a humane, workable way out of that problem will become the preoccupation and unifying force of all who are concerned with the future of education in this country.

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[1] Larry Friedman, president of the United States National Student Association, is a graduate of Queens College, where he was a student body president. He was active in the fight to retain open admissions policies at the City University of New York system.

Our historic national commitment to public education is threatened. Its value is being widely questioned. Thomas Jefferson said almost 200 years ago, "If a nation expects to be ignorant and free, it expects what never was, and never will be." But we have found education, which Jefferson pointed out, insures our national freedom, is itself far from free.

Private colleges and universities are terribly ill financially. Public schools are about to catch their own cold. The cost of higher education in recent years has shot up at a much faster rate than the unprecedented inflation occurring in the rest of the economy. The National Student Association is sadly in a position to document the spiraling trend of bankruptcies and closings of member schools.

Administrators, students, and faculty find themselves caught in a pattern of conflicting demands, none within their control. They are caught between climbing costs and fixed resources. This is a much quieter crisis than that of which student activists have come to expect and identify as problems. But it threatens to do irreparable damage to careers, to society, as well as to our family and personal finances.

For those whose financial position has led them to dismiss with a great yawn the idea of increasingly expensive education, let me examine what the projected social impact, of both the problem and some of the solutions, will be. A much more expensive tuition structure means not just fewer faces in each freshman class. Other changes will take place as well.

The composition of the student community will change. When the percentage of a family's income spent on education increases dramatically, critical questions of priority must be made. This is because questions of priorities were not raised or were raised too late on the national and state levels. It has become a family decision by default.

Obviously, the first group to disappear will be the poor. Insofar as they have been able to gain entry at all into our system of higher education, their role will diminish drastically. Our ethnic minorities who have only recently begun to be represented on campuses in significant numbers, will quickly revert to token participation. We are already seeing this phenomenon at some of our member schools. Schools which three years ago were in contact with the national office requesting assistance in organizing around third world problems, black studies programs, Latino groups, and other minority issues on campus, are now in significant decline. At some schools, the organizers have been forced to leave along with most of those they would organize.

We can expect that the percentage of women, particularly from the lower and middle class families, will be markedly lower. If a blue collar worker can now barely afford to keep two college-age children in school, and one of them is female, I do not have to be a mystic to predict which one is most likely not to return to finish her degree, if tuition costs double.

For those who yearn for a return of the Gatsby era of the 20's, there nostalgic dreams may soon be fulfilled, on campuses at least. College may once again become the exclusive domain of the white sons of the wealthy.

This problem is becoming critical so quickly, threatening even the most affluent colleges that it has not gone entirely unnoticed. There have been several proposals to alleviate the plight of the financially pressed university. In the majority of the proposals, most of the burden of increased cost is placed upon the student and his or her family. If this is allowed to happen—if these proposals are allowed to become reality—the problem may begin to solve itself; much smaller student bodies will require much reduced facilities. Education will price itself out of the reach of society.

For example, the state of Ohio has proposed a scheme whereby students attending public four-year universities and graduate schools would be forced to legally obligate themselves to repay to the state the entire amount of the state contribution to that institution. Students at a private college or university would be similarly obligated, but the amount would presumably be somewhat smaller. The financial obligation thus incurred could easily exceed that of a home mortgage and extend for decades.

Students do not relish the idea of spending their entire working lives paying off the interest on their BA, while presumably setting aside something for their children to attend college.

There are two other well-known groups which have recently made recommendations.

The Committee for Economic Development is a group composed mainly of businessmen. It has recommended that tuition at private colleges and universities be doubled over the next four years. Using costs of 1969 and 1970 this would increase average tuition at a state university from $413 to $996.

Going even further down the rugged road of increased tuitions is the Carnegie Commission. After years of study, with a large staff and a budget of millions, it has suggested even more substantial tuition increases, together with a reduction of the support provided by the taxpayers.

Both commissions advocate a much enlarged system of loan and grant aid for the needy, but no matter how well-meaning that particular recommendation is, it has been the experience of the NSA that grant and loan aid never increases as fast as tuition. Nor are the criteria for those who qualify for assistance adequately broad.

At one of our member schools, a community college in Oregon with, what their administration fancies is an advanced program of student aid, average assistance has increased each time tuition has increased. However, at this school, assistance has increased $4 for every $10 increase in tuition, and fewer people have been found to qualify for that assistance three years in a row. We feel that the promise of vastly increased assistance is a fraud thrown to dull the edge of the huge tuition increases proposed.

These recommendations make good accounting but bad education. They are devised by businessmen who are understandably appalled when they examine the balance books of higher education. But we cannot apply the accounting procedures and cost-effective expectations in industry to education and wind up with a system that benefits the individual, or the society. We have to recognize that universities are special cases and, while we want them to be as efficient as possible, within their budgets, they will never conform to the financial expectations of a profit-loss system. I find it particularly disconcerting when I hear educators such as Clark Kerr refer to the "knowledge industry."

Education is not an industry and will not follow the rules of industry. It is a separate system which follows its own complex rules. The end product may be years or sometimes generations away. The immediate value or damage of a given change may not be possible to evaluate for years following its implementation. Therefore, we must act very carefully and deliberately. We cannot churn out educated individuals who will be able to create an advanced and humane society, and to live in that society, by using the same methods that GM uses to turn out Chevrolets.

We must examine the backgrounds and the motives of the men who brought forth the recommendations of the Council on Economic Development, the Carnegie Commission and the Ohio Proposal. These are well-meaning men of impeccable credentials in areas other than education. They are, for the most part, wealthy white businessmen, more intelligent than most, but not without the influences of their class. Many of them are the friends of the present administration and share the administration's economic views. They were insulated from the pressures of the recent catastrophic inflation by their relative wealth and insured income. Their recommendations are, in the view of their backgrounds, entirely predictable. They are also hopelessly wide of the mark. Let me state a few laws, or rules:

> First, tuitions only change in one direction.
>
> Second, when tuitions increase, they always do so much faster than the cost of living as a whole.
>
> Third, financial aid never increases as fast as tuition. Those who qualify for such aid are never as large a group as those who require it, and needs are always larger than the funds available.
>
> Fourth, the financial burden of higher education has moved beyond the ability of most to pay.
>
> Finally, businessmen are as equipped to judge education as atheletes are to promote shaving cream. That both groups have been employed in such diverse fields should not be mistaken for competence, much less expertise.

How, then, do we pay for our literate society? The amounts of money involved in funding higher education are so enormous that they could come from a limited number of sources. Indeed, once the amount involved gets beyond the budget of the unitary family, there is really only one source for the billions required. The federal government must be prepared to enter the funding of higher education on a massive and unprecedented scale.

The government is not ready. Aid to education is small and getting smaller. According to the president's budget for the next fiscal year, one billion dollars will be available to about one million students for loans. This is a decrease from fiscal 1974 in which the president recommended 1.6 billion to assist 1.5 million students. It is an interesting reversal of assistance in the face of spiraling need. That it is unjustifiable is clear, though I would like to hear the official rationale for the rollback.

But there are other voices. A congressman on the education committee of the House, William Lehman of Florida, recently uttered the blasphemous suggestion at a public forum. He said, "I think that we shall have to begin considering whether we should make a college education free for everyone." It is not an untested idea. For one hundred years, The City University of New York has been entirely tuition free for residents. Over 200,000 students are presently enrolled at the institution. Further, regaining the substantial burden placed upon students by expenses other than tuition, CUNY has an extensive program of aid and loans to cover books, room and board. It has worked elsewhere on smaller scales. This is the key to the funding crisis. If we are to assume that everyone benefits from a well-educated society, from the products it produces, the technology, the arts, the increased earning power and consequent tax revenue, the increased sophistication of the voting and consuming public, if we assume that it is better to be an educated society, then the price for that level of civilization should be borne by us all; just as our defense budget and our highways are paid for by all of our citizens.

This proposal will be described by many labels, many of them the same uncomplimentary epithets used to describe social security when it was first proposed. But the government must be forced by circumstance to enter, however, unwillingly, into this area on a massive scale. The problem is so staggering that no other way out of the dilemma exists in the long run. I feel that the debate should focus on the best, most equitable mechanism for distributing federal government funding of higher education. Whether by grants to the schools, to the states, or to the student, a method must be found which will level out and reduce the financial burden for all students, whether at private or public institutions.

For years Americans have committeed themselves to publicly funded education through twelfth grade only. This committment was universal in its application, and alas in its rather arbitrarily chosen point of cut-off. If at one point it was rational, for the needs of the society and the individual, to insure that each citizen would receive a minimum of twelve years of public instruction, should we not now re-examine the extent of that public commitment? In the intervening decades has not society become more complex and more demanding? The vast expansion of technology and communication has altered our lives unrecognizably. More is possible now, and much more is expected to meet the challenge of the last quarter of the 20th century. It is long past time that we extend by at least another four years that 12 year committment made generations ago. A college education must eventually be made free to all who can absorb it. We must recognize that fact and begin structuring the distribution.

I spoke to a woman in my office recently who was a delegate at our last National Congress. She described how, in her junior year, the receipt of $140 additional financial aid made it possible for her to go on and complete her degree. She said she could look back at few times in her life when she had been placed with a truly pivotal choice, but that was clearly one of them.

The tragedy is, that there exist negative counter-parts to her story almost without number. Students who could handle the work but not the expense. Students whose families set aside enough money for them to attend a university and who had to leave school when the amount required doubled. And there will be millions of new victims of this quiet crisis in funding unless we as a nation act decisively and soon.

REACTION TO THE NIXON HIGHER EDUCATION BUDGET

The proposed federal budget for higher education in fiscal 1975 accomplishes a linguistic ballet when it claims it "continues the shift in Federal support from institutional assistance to student assistance which began several years ago."

This is not entirely correct. This is the third year the Nixon administration has attempted to reorder the funding priorities in higher education. Congress has repeatedly rejected the Administration's plan to place major emphasis on student aid through the Basic Opportunity Grants (BOG's) and Guaranteed Student Loans while eliminating Supplemental Educational Opportunity Grants, Direct Loans, and categorical programs such as aid to Land-Grant colleges, university-community services, and under-graduate instructional equipment.

Last year a similar budget drew an overwhelmingly negative response from many legislators as well as institutional groups and student associations. Congress rewrote the entire higher education budget.

An analysis prepared by staff representatives of 16 postsecondary associations predicts a similar fate this year. "It is fair to assume that the Congress will again reject proposals not in keeping with Congressional intent, the law as written, or the best interests of the country as the Congress views them," said the report.

Reaction from Capitol Hill indicates legislators are again dissatisfied with Nixon's budget. Senator William Proxmire (D–Wisc.), vice-chairperson of the Congressional Joint Economic Committee, called for increased aid to health and education. According to Proxmire the funds could "easily come out of the massive fat and waste in military procurement, excessive overseas bases and troops, and the dilatory and gold-plated weapons such as the new carrier, the B–1 bomber and the F–14 fighter plane."

House Democratic leader Thomas (Tip) O'Neal of Massachusetts called for new "spending priorities to emphasize domestic needs such as education, housing and health."

House Education and Labor Committee Chairman Carl Perkins criticized the budget request for education saying, "For the third straight year it's insufficient." Perkins added that some of the program eliminations were "violations of laws the President himself signed."

Perkins is referring to Title IV of the 1972 Higher Education Act which requires that National Direct Student Loans, Supplemental Educational Opportunity Grants and College Work-Study be funded at a certain minimum level before any funds are provided for the Basic Opportunity Grant program.

Representative James G. O'Hara, chairperson of the House Special Subcommittee on Education, strongly protested the circumvention of the law. "On previous occasions the Congress has refused to grant the executive branch a dispensation from following the law," says O'Hara. "I know of no one in or out of the executive branch who thinks that the Congress will give such a dispensation in this third year of the (basic grants) program."

Caspar Weinberger, Secretary of Health, Education, and Welfare, claims the fiscal 1975 budget represents "major initiatives" in education. According to the Department of HEW the student aid budget is "a substantial increase over previous years."

But Charlie Lee, an influential education lobbyist for the Committee for Full Funding, charges the "substantial increase" is actually "offset to a large degree by major cutbacks in other programs. Everyone applauds $1.3 billion for Basic Opportunity Grants," says Lee. "But it doesn't represent a large overall increase in funds." Lee feels the increase of $272 million in the higher education budget is a meager sum when expanding needs and inflation are considered.

"The budget is a 'now you see it, now you don't' affair that shifts funds like a shell game," says Allan Ostar, Executive Director of the American Association of State Colleges and Universities (AASCU). "A shell game without the pea," adds the Coalition for Health Funding.

Senator Warren Magnuson (D-Wash) said the budget "simply demonstrates a lack of real commitment as contrasted to rhetoric."

HEW Secretary Weinberger claims the increased funds for Basic Opportunity Grants will "help make an undergraduate education available to all students. Guaranteed students loans continue to be available to defray the costs of both an undergraduate and a graduate education."

"Utter garbage" responds Larry Friedman, president of the National Student Association. "The eligibility requirements on Basic Opportunity Grants eliminate many students, and those lucky enough to receive a grant will find the average amount to be a paltry $475. This is an insult, it's not enough to purchase textbooks and course material. Further, most banks are simply unwilling to issue Guaranteed Student Loans especially to women, ethnic minorities, and the poor who need them the most."

The administration, however, contends its budget will be sufficient. On page 56 of the HEW budget the "game plan" for higher education is revealed. Citing "the increased availability of loans" projected under the Guaranteed Student Loan (GSL) program, the administration says it will "request no appropriation" for National Direct Student Loans."

The 1975 budget "anticipates that the several Federal student aid programs (principally BOG's and GSL's) combined with State and institutional student assistance programs will provide adequate student aid funds to remove financial need as a barrier to postsecondary education. Therefore, no funds are requested for the Supplementary (Educational) Opportunity Grant Program or the State Incentive Grants Program, both authorized by the Education Amendments of 1972."

Richard Tombaugh, executive secretary of the National Association of Student Financial Aid Administrators is not sure the Nixon plan will work. "We are not willing to accept the premise that BOG's and GSL's should totally replace the other programs. I have to restate for the third time the need to continue the programs they want to phase out." Tombaugh doesn't want to see the functioning programs "go down the tube until BOG's and GSL's have worked out their kinks."

The financial aid expert is also wary of students having to depend on loans issued by private banks which must react to pressures in the money market. "GSL's are not a good investment for banks in the first place," says Tombaugh, "and they will be worse with the prime interest rate what it is today." It shouldn't be a question of funding either GSL loans or NDSL loans according to Tombaugh. "We need both programs, the GSL's are convenience loans to help with cash-flow problems and the NDSL's are aimed at needy students. They're completely different programs."

Lobbyist Charlie Lee says federal outlays for the student Loan programs would not be sufficient even if students could find banks willing to lend the money. "There is a great pool of unmet demand by approved and eligible students," says Lee who calculates loan funds will cover only two-thirds of the approved loans needs of students who qualify. Allan Ostar of AASCU is worried because "There are no assurances that students will be able to borrow money."

The Guaranteed Student Loan program still has some major technical problems to iron out. Congress is presently considering revising eligibility requirements and the Office of Education in HEW is confronting the problem of collecting overdue debts. Defaults are increasing at such a rapid rate that $115 million of the $430 million budget request for GSL's will go to pay off defaulted loans. Because GSL's are handled by private banks "this means the government is using the taxpayer's money to make sure private investors make a profit," charges NSA's Larry Friedman.

Under pressure to clean up the problem, the Office of Education has been forced to create 330 new positions in its insured loan division to "improve the management" of the GSL's, improve collections of defaulted loans and reduce the incidence of defaults.

Nixon's plans for federal aid to the College Work-Study have also been criticized. The administration claims "continued support of the College Work-Study Program" yet it is cutting the Work-Study budget by $20 million.

Richard Tombaugh is concerned fundings is being reduced for Work-Study when the needs of institutions are escalating. "This year there are 400 more institutions" participating in the Work-Study program says Tombaugh. He notes that even if Work-Study funds were not reduced, institutions "would be slicing the same size pie into smaller pieces." Tombaugh thinks Work-Study funds are "Totally inadequate. The funding level is probably less than half what institutions could actually utilize."

Lobbyist Charlie Lee points to other problems with the proposed budget. "The $1.8 million cut in college teaching fellowships will hurt graduate education," says Lee. "The administration makes a big thing out of the teacher surplus, but there are lots of areas of actual shortages in specific disciplines such as bilingual education and education of the handicapped."

Lee is frustrated by the abandoning of the State Scholarship Incentive Grant program after only one year. "That program was funded with seed money to increase state money for student financial aid." If funded, Lee feels the program would pay for itself by creating new sources of state student financial aid.

NSA president Larry Friedman is worried about the effect of the proposed budget on ethnic minorities. "While there is a slight increase in federal aid to institutions educating large numbers of minority students, the students themselves are being abandoned." Friedman points to the termination of Supplemental Educational Opportunity Grants and explains, "Those grants were designed to help students who even with other assistance programs needed more money to get an education. Many of these students are ethnic minorities." Another program aimed at "improving postsecondary educational opportunities for the disadvantaged" is being funded at the same level as last year despite inflation and increased numbers of students who could participate. Funds for ethnic studies have also been terminated along with support for University-Community Services, a program that often teamed the university with the inner-city to try to solve specific urban problems.

Friedman fears the Nixon budget would lead to "the abandonment of our country's traditional support of higher education." He claims the administration's plans go hand-in-glove with the tuition raising proposals of several prestigious business and education groups.

Proponents of higher tuition say the shift to direct student aid from institutional aid will not affect higher education because the same amount of money would end up in college coffers—only the route would be different. Friedman disagrees. He says it won't work that way. "The federal student assistance programs are already inadequate and they never keep up with rising tuitions. Student financial aid varies with the whims of bankers and legislators but tuition is always increasing. There is always a gap between tuition levels and student assistance levels."

According to Friedman the Nixon strategy for higher education seems "calculated to force middle income students and their families into long-range debt, potentially shutting out lower-income and ethnic minority students altogether."

Limiting access to higher education would affect society as a whole. Critics of the Nixon philosophy are worried that higher education is pricing itself out of the reach of most people. Especially hard-hit is the working class. Family income eligibility guidelines for student financial aid shut out most middle income and working class families who are unable to send their children to college on meager savings alone.

A traditional form of advancement for working class families has always been sending their children to college. Unable to afford higher education the children will join their parents on the assembly line. This will increase competition for skilled and unskilled jobs that don't require a diploma, thus swelling the ranks of the unemployed. Competition will then increase between blue-collar workers and the unemployed for jobs, women and ethnic minorities for scholarships, and middle and lower income families for student financial aid.

The poor resent insufficient aid and the working class resents non-existent aid. Polarization and a stagnation of social mobility is the inevitable result. "College may once again become the exclusive domain of the white sons of the wealthy," warns Larry Friedman.

The administration contends it is merely trying to depend on non-governmental mechanisms for student loans while creating a "Free Market" in higher education by targeting aid at students.

Charlie Lee agrees that students "should be able to vote with a check where they want to go to school but the checks have to be big enough. The Free Market theory works if, and only if, the buying power is sufficient." The education lobbyist feels the only way to provide sufficient buying power is to "fully fund" the Higher Education Act of 1972 which includes all the programs Nixon wants to axe.

Lee also is dubious of the ideological purity of the Free Market thesis as applied to education funding. He has detected a strong trend away from funding categorical programs on a mandatory basis and towards discretionary funding.

When the federal government funds a categorical program it must meet certain federal requirements. The program must be funded and administered in specific ways. When these federal guidelines are violated individuals or groups can turn to the courts for help. This is a common way to force states and institutions using federal funds to stop discrimination on the basis of race or sex.

"There is less court action with discretionary funds," says Lee, because the guidelines are less strict and often are left up to the state. "Discretionary funds can also be channeled to specific congressional districts and states that have political importance" adds Lee.

Many higher education groups have doubts about both the philosophical and political motives behind the administration's "game plan" for higher education. The administration contends the shifting of monies in the higher education budget is simply a reshuffling of the financial deck. But Charlie Lee sees something else in the cards.

"They are wiping out the Kennedy and Johnson education acts," charges Lee. Another spokesperson for a large association of higher education institutions was more blunt in the off-the-record comments. "The Nixon higher education budget is bullshit. The net effect is to reduce opportunity for all students no matter what he claims."

The National Student Lobby (NSL), which fought for more money for higher education last year, has already designed a counter-budget. NSL's Layton Olson explains their budget would seek "full authorization of funds for all student aid programs under the 1972 Higher Education Act."

The NSL budget proposes keeping the $1.3 billion for Basic Opportunity Grants while also funding Supplemental Educational Opportunity Grants with $250 million. College Work-Study would receive its legal authorization of $240 million. Guaranteed Student Loans would keep its $430 million and the National Direct Student Loans would get $293 million to increase loan availability.

According to Olson, the National Student Lobby will concentrate this year on continued funding of the State Scholarship Incentive Grants and increased funding for College Work-Study.

Many Senators and Representatives have already indicated they are unwilling to abandon the older programs. Senate Education Subcommittee Claiborne Pell expressed pleasure that Basic Opportunity Grants, a program he authored, were to be fully funded. But Pell expressed concern over the "President's failure to propose funds for the college-based student aid programs as intended in the law. I would hope Congress would respond by funding these programs in addition to fully funding Basic Grants."

Last year Nixon lost the battle over the higher education budget and signed the Congressional version into law after blasting legislators for ignoring his plans. Nixon has already warned educators that he will fight longer and harder this year to make Congress accept his proposals.

The Administration has submitted a higher education budget document that is virtually identical to the one it proposed last year. Entire sentences are lifted from the fiscal 1974 budget. Since Congress was unimpressed with last year's rhetoric it has no reason to change its response this year.

A swift victory over the Administration is not likely, however. Congress only reacts to pressure—and then, slowly. The funds for many student assistance programs were pried out of a Congressional committee only after intense lobbying by hordes of students and educators. Funds were made available so late in the year that student assistance programs were seriously threatened. There is no reason to expect that situation to be any different this year.

NIXON'S PROPOSED 1974 DEFENSE BUDGET UP 15 PERCENT

"I would hope that the time will come when the administration will in fact give education in our country the same support it gives tanks and bombers and new weapons systems."—Senator Claiborne Pell

"When it comes to support of American education the rhetoric of the Nixon administration is fine, but not the record. The words are there, but not the deeds."—Representative John Brademas.

It is easy to develop a false perspective when glancing over the multi-million dollar figures in the higher education budget. The sums are so huge and overwhelming.

Lest one began to believe that higher education is adequately funded by the federal government, NSA Magazine offers the following comparisons:

The complete official federal budget document weighs 4 pounds 13 ounces and contains 1072 pages; the higher education section of the budget takes up seven pages and weighs just over one ounce.

The $85.8 billion requested in the fiscal 1975 budget for the Department of Defense is 38 times the amount of money requested for higher education which is only $2.229 billion.

The net increase in the Department of Defense budget over last year is $6.3 billion. This increase alone is more than the total amount of money allocated to the Office of Education for pre-school through postgraduate training. The Office of Education budget is $6.15 billion.

The net increase in the Department of Defense budget is almost three times the entire federal outlay of funds for all phases of higher education.

The cost of one Trident submarine is $1.3 billion, which is the same amount of money requested by Nixon to fund the Basic Opportunity Grants (BOG) program for one year. The BOG program will grant an average of $800 to 1.6 million students in academic 1975–76. There are 10 Trident submarines planned.

The $1.9 billion budgeted next year for U.S. support of the continuing war in southeast Asia would fund all federal student financial aid programs proposed in the Nixon higher education budget including Basic Opportunity Grants, Guaranteed Student Loans, College Work-Study, and Cooperative Education.

The $450 million allocated to keep U.S. military personel and bombers in Thailand could fund the entire Guaranteed Student Loan program for one year. The loan program reaches over one million students with subsidized loans averaging $1,250 each.

The $23 million in the Defense budget to expand the U.S. military base on the island of Diego Garcia in the middle of the Indian Ocean is almost six times the amount allocated by the federal government to train college teachers next year.

If the federal higher education budget was cashed into dollar bills and laid end-to-end, they would almost complete two round trips from the Earth to the Moon. The Defense budget dollars would complete 68 round trips from the Earth to the Moon; and if placed in a straight line, the military greenbacks would stretch over 32 million miles and reach all the way to Mars.

FINANCING POSTSECONDARY EDUCATION IN THE UNITED STATES

(By Kathleen Brouder[1])

Prefacing its presentation with disclaimers about how much more remains unlearned, the National Commission on Financing Postsecondary Education issues its long-awaited report to the President and the Congress—raising a plethora of questions, but providing no new answers.

The Commission was created in late 1972 by act of Congress and charged with studying the effectiveness of existent and alternative financing plans for postsecondary education. Their findings and recommendations are summarized in a 442-page document entitled Financing Postsecondary Education in the United States—the product of a 14-month, $1.5 million research effort that yielded the most comprehensive data base ever constructed for postsecondary education. The report called for the recognition of *student access* as the top-priority goal for postsecondary education, and for the development of new financing plans to achieve that and other "national objectives."

Contrary to the expectations of some legislators and educators, the Commission did not give an outright endorsement to any single financing plan, although it reported that current financing patterns had failed to accomplish what it described as basic national objectives. Describing the financing of postsecondary education as a shared responsibility among many sources, the Commission concluded that at least two measures would be required to achieve these goals: a complete overhaul of current financing patterns and mechanisms, and an overall increase in the level of monies made available to the postsecondary enterprise.

The panel carefully side-stepped the issue of what *specific* proposals might be required, and concentrated instead on the development of a mathematical construct of "an analytical model" designed to test the impact of various plans on the achievement of national objectives. At a Washington press conference where the report was released Chairman Donald Leonard explained that his panel had decided early in its research effort to develop an analytical model for future policymaking in the field of educational finance, rather than to "put forward a 'laundry-list' of programs for the Federal government to finance." But the Commission's analysis of eight alternative proposals seemed to favor the controversial approach suggested by the Committee for Economic Development last October—increased public school tuitions and decreased state appropriations, coupled with increased Federal funding for student aid.

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[1] Kathleen Brouder is Educational Affairs Director of the U.S. National Student Association.

THE IMPACT OF EXISTENT FINANCING PATTERNS

In its final report, the Commission said that the prerequisite for evaluating either existent or proposed financing plans was the establishment of national objectives for postsecondary education. It proposed the adoption of eight such objectives, with student access the top priority among them. According to the report, access means that "each individual should be able to enroll in some form of postsecondary education appropriate to that person's needs, capability and motivation." The Commission also concluded that under current financing patterns, access as a national objective had not yet been accomplished. It cited four major categories of evidence in support of its conclusion.

With regard to family income level, the report noted that the participation of 18 to 24 year-olds in the "under $10,000" bracket was less than half the rate of participation for the same age group in the "over $10,000" bracket. The Commission was quick to add, however, that family income was not the only significant determinant in young people's decision to participate in educational programs beyond the high school level, and suggested that rigid secondary school tracking was the "single most controllable factor."

The report also noted that the participation rates for some racial and ethnic minorities fell far below national averages for other Americans. Study also indicated that women were underrepresented in postsecondary education—comprising 51% of the 18- to 24-year-old population, but only 44% of undergraduate and 39% of graduate enrollments. Finally, the report noted that with respect to the geographic location of institutions, individuals residing in small metropolitan areas were better served than persons living in either rural or large metropolitan areas.

Two of the Commission's other proposed national objectives are also student-oriented, and directly related to the access concept. Student choice was defined to mean that every individual should have a "reasonable choice" among the institutions to which she/he is accepted, including adequate financial assistance. The absence of such reasonable choice implies restricted access. Student opportunity implies that students, once enrolled, should have available to them the necessary academic counseling and support to enable them to complete their particular educational objectives. In measuring the degree of accomplishment of both objectives to date, the Commission stressed the difficulty of firm judgments in the absence of adequate information. In analyzing student choice, the Commission suggested that further research was needed to provide a better understanding of the "interactive processes of admission, financial aid, and enrollment." Data compiled in the public and private sectors indicates, however, that students who are admitted to some form of postsecondary education are proportionately distributed according to income level throughout the entire collegiate enterprise. Achievement of student opportunity was more difficult to assess, because program completion was viewed by the panel as an inadequate criterion for measurement, particularly for persons enrolled in occupationally-oriented programs or institutions; the panel did conclude that cost of attendance in itself did not appear to be a controlling variable in program completion.

Other national objectives designated by the panel included: educational diversity in support of the changing needs of individuals and the society; institutional excellence in instruction, research, public service, and other learning opportunities; institutional independence, or the freedom and flexibility to meet their educational goals; institutional accountability for the effective, efficient use and reporting of financial and other resources; and adequate financial resources to meet designated national objectives.

In the Commission's evaluation, current financing patterns have not substantially contributed to the achievement of these objectives. Educational diversity in support of a pluralistic society was once a characteristic of American postsecondary education, said the report, but has been eroded in recent decades by "an important trend toward homogeneity of purpose among collegiate institutions." While there may be a diversity of program offering within institutions, there is little diversity of missions among institutions. To the extent that most institutional assistance has taken the form of "unrestricted" rather than "earmarked" monies, the Commission concluded that current financing patterns have not particularly encouraged the development of unique institutional missions.

In evaluating institutional excellence, the Commission took notice of various special funding programs directed towards the improvement of teaching and learning. But the panel conceded that it was nearly impossible to measure their effectiveness in the absence of universally-recognized criteria for determining excellence, begged the question neatly by urging that "the search for measurements of excellence be continued, as the search itself will encourage the effort to achieve excellence."

The panel's analysis of the impact of current financing strategies on institutional independence resulted in the conclusion that an institution's capacity for achieving its particular educational goals was more likely to be influenced by the availability or scarcity of financial resources, than by the number of sources providing its financial resources. In reviewing the entire postsecondary enterprise, the Commission concluded that while some institutions are suffering from financial distress, the various sectors are not yet experiencing financial distress to any great degree. It warned, however, that a continuation of current financing patterns would be likely to produce such distress across whole sectors.

The Commission was considerably more decisive in assessing the achievement of institutional accountability, concluding that "many of the information and analytical procedures now required for the efficient and effective allocation of resources in increasingly complex institutions and for the determination of postsecondary education policy are not readily available and those that are available are not widely used." For that reason, the panel urged the expansion and maintenance of the data base it had created, and proposed a series of uniform procedures for use on a nationwide basis in determining the annual "per-student costs" of providing an education at various kinds of institutions. In addition, the Commission recommended that additional financial support be provided for research efforts aimed at creating and disseminating new techniques and methods for improving institutional accountability.

In concluding its analysis of current financing patterns, the Commission arrived at the unsurprising conclusion that while many sources share the responsibility for funding postsecondary education, the total amount of resources now made available falls short of what is required to accomplish all of the objectives cited by the Commission. Because achieving all of the objectives cited would require realignments in financing patterns over a period of time, and because postsecondary education would have to compete with other "important public functions" for its share of available resources, the Commission also concluded that priorities must be established among the various objectives, and alternative financing plans analyzed for their probable effectiveness in meeting the top-priority goals.

THE IMPACT OF ALTERNATIVE PROPOSALS

The key sections of the commission's report revolved around the development of its analytical model, and its application to eight alternative funding schemes. The analytical model itself contains ten major elements, including such factors as the aforementioned objectives and criteria to measure their accomplishment, assumptions about the role of postsecondary education in a changing society, financing mechanisms to carry out the policies implied by the objectives, and methods for estimating student response to changes in financing patterns.

The Commission suggested that any financing proposal could be "run through" or measured against the model, and evaluated on its capability for achieving established goals. While urging that legislators adopt these or similar analytical tools, the panel warned that their own model still had some deficiencies. For instance it said that there was insufficient information available to predict how institutions would respond to changes in financing patterns (e.g., would institutions increase tuitions or slash programs in response to decreased state appropriations for institutional aid?). Neither could the analytical model incorporate such political factors as the dynamic of seeking additional student assistance monies from Federal or state legislatures.

The panel illustrated the model's operations by applying it to eight alternative financing plans, each representing a combination of policy choices about the "recipient of assistance" (e.g., student or institution or both) and assumptions about the primary "beneficiary" of postsecondary education (i.e., individual or society or some combination of the two), as a method of determining who should bear the primary costs involved in its provision.

Even at this juncture, the Commission made no recommendation of any one plan over the others. But a careful reading of its findings indicates that only one of the eight would both substantially increase access for previously-restricted groups and meet the criteria of shared responsibility. That proposal, Plan B, is similar to the CED approach, and would call for increases in public school tuitions to the level of 50% of educational costs. While its effect would be to lower enrollments in the public collegiate sector from those currently projected for 1980, it would also increase enrollments in the private collegiate and noncollegiate sectors. Coupled with increased Federal funding for student aid programs, this proposal would presumably increase the enrollment percentages from lower-income groups (in support of student access); it would also affect a better mix of students throughout all sectors, thus supporting the goal of student choice.

The Commission's choice of objectives stacked the deck against its other alternative proposals. "Shared responsibility" ruled out plans that allocated the financial burden solely to students and their families or to state and Federal government (e.g., the equivalent of tuition-free public institutions). Student access precluded plans which would increase enrollments from middle-income groups more than from lower-income groups. On the grounds that increased access would also necessarily require increased tuitional costs, plans that allocated all public support to students or all public support to institutions would be similarly disqualified. The process of elimination leaves only Plan B—and its spectre of spiraling tuition charges.

THE IMPACT OF THE REPORT

Response to the Commission's report in Washington was guarded, and could be perhaps best described as "damned by faint praise." Most commentators took their cue from the Commission itself, applauding the panel's development of a comprehensive data base and analytical tools for use in future legislative efforts, and barely concealing their relief that the report had not overtly recommended anything at all beyond refinements in research. Dr. Edmund Gleazer, president of the American Association of Community and Junior Colleges, emphasized the report's support for continued diversity in financing and responsibiilty, saying that such diversity "will make it possible for community and junior colleges to continue to respond to needs in local areas." House Special Education Subcommittee Chairman James O'Hara (D-Mich.) similarly praised the panel's "superb job of gathering data" but hedged on evaluating the report's value. He will call soon for hearings on the Commission's report. Other educators expressed their approval of the group's efforts to compile previously-unavailable data and develop systematic procedures for using it as the basis for policy-making.

One notable exception to the chorus of weak praise was a statement by the American Association of State Colleges and Universities (AASCU), which has been at the forefront of efforts to head off tuition increases. AASCU challenged the Commission's assumption that increases in student aid are the same as decreases in tuition as far as their impact on enrollment patterns are concerned. That generalization constituted a significant element in its analysis of various financing plans. "Such a statement disregards the danger inherent in raising tuition," said AASCU, and fails to consider "the uncertainty of available-student aid, which depends on the annually shifting priorities of bureaucrats, Congressmen and private lenders." The AASCU positions corresponds closely to the NSA belief that the best form of student assistance is low tuition.

It is difficult to judge what effect—if any—the Commission's report will have on Congressional legislative efforts in the area of postsecondary finance. Some Washington sources insist that the struggle over financing has already shifted away from the national to the state level, where many legislatures are currently contemplating both increased tuition charges and decreased institutional aid for public colleges and universities. If that trend continues, the Congress may find itself forced into a defensive, rather than offensive, posture when it finally undertakes legislation in the finance area—compelled to undertake massive student aid legislation just to pick up the slack created by state actions.

Such a turn of events would be both ironic and tragic—ironic because the Congress' supposed intent in creating the Commission was, in part, to facilitate a deliberate and knowledgeable re-working of the interface between Federal and state financing programs . . . tragic because the Congress has never proved itself to be particularly effectual in appropriating adequate funds for student aid programs in a timely fashion. And yet that begins to look like a highly-probably scenario for the next year: the state legislatures, pressured by competing constituencies and programs, will begin to cut appropriations for institutional aid and hike tuitions as a compensatory measure. Then the Federal government will be forced to come up with massive increases in funding for student aid programs, just to prop up the floundering postsecondary enterprise. The Commission's final report, for all of its analytical sophistication and statistical detail, may turn out to be nothing but the "last hurrah."

Students Can Find Strong Allies Against Higher Tuition in Labor Unions

If your state legislature is contemplating a tuition increase, and you're looking for "natural allies" in the upcoming legislative battles, look to the labor unions in your area. Organized labor has emerged as one of the major forces in the fight to save low tuitions at publicly-supported institutions of higher education. Recommended increases in student charges in the public postsecondary sector have come under sharp attack from the major unions, many of whom have already launched state lobbying efforts to head off proposed tuition hikes.

"First-generation" students comprise the bulk of enrollments at state colleges and universities today. Distorted visions of what constitutes a middle-level income in an era of rising inflation threaten to price workers and their children out of the education market entirely. Massive increases in tuitions would "shatter the hopes of workers to insure that their children have the advantages of higher education" says AFL–CIO President George Meany. "We do not believe that the price of higher education should be starting life under a mountain of debt."

Organized labor and the student community clearly share the same concern about rising educational costs, and can also share in the growing national effort to hold the line. Particularly on the state-wide level, students can compliment the lobbying efforts the unions have already initiated. Conversations with labor spokespersons in Washington indicate that many labor locals and regionals would welcome the support of students in lobbying the state legislatures currently considering increases. The unions have the contacts, the history and the expertise to lobby, locally and nationally. Students can supplement their efforts through petition campaigns, research and mobilizing their own lobbying delegations.

As Rep. James G. O'Hara (D-Mich.) said in response to the CED Report: "It is time to blow the whistle on the growing tendency of the rich to make grandiose plans to aid the poor with the money of the middle class." Local student associations should contact organized labor groups in their cities and states, and find out what they are doing and how they could utilize student assistance.

Mr. O'Hara. Our second witness is Mr. Robert J. Pitchell who is executive director of the National University Extension Association.

Mr. Pitchell's primary interest is in the problems part-time students have with the grant programs. Mr. Pitchell, we would be very happy to hear from you.

STATEMENT OF ROBERT J. PITCHELL, EXECUTIVE DIRECTOR, NATIONAL UNIVERSITY EXTENSION ASSOCIATION, ACCOMPANIED BY JUDY SCHUB, RESEARCH ASSISTANT AND PART-TIME STUDENT

Mr. Pitchell. Mr. Chairman, I have with me Judy Schub, who has served as my research assistant last year on a major study. She is a part-time student and will be able to give technical assisatnce on any questions you or members of the committee might have.

Mr. Chairman, student assistance grants under title IV of the Higher Education Act were intended to be made available to all eligible students, whether full time or part time. Basic grants were to be made directly to students; supplemental grants to institutions for their discretionary application in accordance with appropriate regulations.

It is unfortunately true that all eligible students have not been able to obtain grants under the basic grants program since the passage of the act. In particular, part-time students as a class have been denied basic grants because of restrictive language in the appropriations acts.

The Office of Education does not have data available on the number or proportion of part-time students who have been denied supplemental grants. As you will note from the data presented below, the chances are high that the number of part-time students who have been awarded supplemental grants is low.

It is evident not only from the actions of Congress but also from the attitudes and actions of many well-meaning persons in postsecondary education that they consider part-time students unworthy of serious consideration for student aid.

At best they are considered to be worthy only after regular full-time students have been fully satisfied. The impression persists that part-time students are not serious in their motivations; are interested primarily in courses such as flower arranging, French and Chinese gourmet cooking and other less academic subjects; are not as competent as regular students or that, in any case, most adults taking part-time work are wasteful of academic resources because they are not interested in pursuing and completing a degree program.

During the past year, I have been privileged to serve as chairman of a special committee of the American Council on Education on financing postsecondary education for part-time students.[1]

The report of that committee was published last week by ACE. In the course of our yearlong study we examined all of these questions in considerable detail. I believe that we put together the most significant array of data ever compiled on this subject and we invite your careful attention to that documentation.

We demonstrated, for example, that part-time students are older, are mostly employed—three-fourths in the labor force—have equal or more serious motivations in terms of subjects taken, drop out with less frequency, have equal intellectual ability and more accrued experience to profit from exposure to academic learning, and achieve as well as or better than full-time students in academic performance.

The committee report concluded that:

> The stereotype of the part-time student compared to the full-time student, which is often shared by academicians and public funding agencies, has no validity.

When faced with this evidence, some people respond that part-time students are employed and therefore are not in financial need, so it does not make any difference. Here, too, the evidence suggests a contrary conclusion.

When measured in terms of family income, according to census survey data in 1969, 73 percent of full-time students had family income of less than $15,000 compared to 77 percent of part-time students, or four percentage points more for part-time students.

This gap widened in 1972 when 62.2 percent of full-time students had family income of less than $15,000 in contrast to 72.4 percent of part-time students, or 10.2 percentage points more.

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[1] "Financing Past-Time Students—The New Majority in Postsecondary Education," American Council on Education, April 1974.

The evidence sugests that many students are going to school part-time not for frivolous reasons but because they are too poor or have too many family obligations to attend school on a full-time basis even with access to a wide range of Federal, State and local student aid programs.

One can ask, 'Why can't part-time students find other sources of financial assistance?" The truth of the matter is that there is widespread, massive discrimination against part-time students in Federal and State student aid programs, social security benefits, institutional tuition rates and financial aid programs, and income tax provisions.

For example, only four of 28 States with needs-based student aid programs provide any eligibility for part-time students. And, incidentially, Mr. Chairman, we made a few telephone calls the other day in preparation for this testimony to some of the States that have begun these programs and they have hardly heard of part-time students, even though they are eligible, so that the likelihood is even in those States where they are legally eligible they are probably very few who are able to get the aid.

Only one State provides equal funding for part-time and full-time students in institutional aid formulas. In a recent survey, only 12 of 23 reporting States provide any public funds for off-campus credit students.

Collegiate institutions participate in this pattern of discrimination: 59 percent of 4-year institutions charge higher tuition fees for part-time students and 34 percent of all institutions deny student aid to part-time students completely, regardless of funding source.

At the Federal level, only full-time students are eligible for social security survivor's and retiree's educational benefits past the age of 18. Similarly, employed part-time students who are denied eligibility for student aid pay taxes on their incomes without deductibility for educational expenses unless the educational activity is directly work related, while full-time students are exempt from taxes on their student aid payments.

We thus have the anomalous situation of two students in law school, for example, one going on a full-time basis and receiving a package of $4,000 in basic and supplementary grants plus institutional aid paying no taxes on that income, and another student working at a regular job but going to school on a part-time basis, on the same gross basis, paying taxes on his taxable income.

Mr. Chairman and members of the committee, what all this adds up to is a serious question of equity not only for the part-time students currently enrolled but also for those who have been unable to enroll because of inadequate financial resources.

If one admits to the need for equitable treatment of part-time students, the specter remains of a horde of such students applying for basic grants, thereby drying up available funds or costing additional billions of dollars.

This matter would be more urgent, if the current BOG program was oversubscribed and the resources of the Federal Government were being strained to the limit. We are all aware that very substantial promotional efforts were necessary this year just to expand an estimated $65 million of the $122 million appropriated, at a time when almost five million part-time postsecondary students were denied even the right to apply for grants.

Beyond that anomalous situation, opening up the basic grant program to part-time students currently enrolled would not be equivalent to opening the floodgates of fiscal irresponsibility.

We do not have hard national data on the average course load taken by part-time students, but limited data indicate that the average part-time collegiate credit student takes between a one-third and two-fifths full-time course load.

The 1972 census data demonstrate that 68.2 percent of part-time students in postsecondary education participated in only one course or activity during the year and only 2.4 percent participated in five or more courses.

These data indicate that under current authorizations few currently enrolled part-time students would meet the requirement of halftime enrollment for grant eligibility.

The real question before this committee is whether all part-time students in degree credit programs should be eligible for basic grants regardless of course load rather than on a halftime basis only.

Many persons pursue degrees over long periods of time while they remain wage earners and taxpayers. Should they be denied equal eligibility for basic grants, if they are in need, just because they do not pursue their educational goals in the lock-step of a 4-year full-time degree program? We would hope not.

If all part-time students were to be granted eligibility for basic grants using the same eligibility criteria as for full-time students, there would still not be a stampede of applicants nor a drain of funds, especially in the collegiate community.

Our estimate is that the full-time equivalent for part-time students in the collegiate sector is 1,100,000 students or approximately one-sixth the total of full-time students. If the same proportion holds true throughout the postsecondary community, the cost of full equity in the basic grants program would be less than 20 percent more than the cost of a grants program restricted to full-time students.

Mr. Chairman, based on these considerations, I would urge the committee to consider three changes in grants programs under Title IV of the Higher Education Act:

1. Language should be inserted in part A, subpart 1, relating to basic grants to insure that all students who qualify for basic grants under the authorization are able to receive them to the limit of the appropriation. Specific language should be included to insure that no student or class of students can be denied access because of restrictive language in the appropriations act.

2. Similar language should be inserted in part A, subpart 2, relating to supplemental grants, with additional language to remove the discretionary power of institutions to deny grants to any student or class of students on any basis other than need as defined in the statute and regulations.

The practice of supposedly responsible institutional officers arbitrarily discriminating against one class of students on wholly irrational grounds should not be tolerated in this day and age, especially when public funds are involved.

The demands by some institutional officers that they must have discretionary power over student aid funds to put together a "package" of aid tailored to the needs of individual students, however meritorious, and I do believe it is a meritorious system, is wholly irrelevant to whether a student is part-time or full-time.

Student aid packages can be put together for part-time students in need as well as for full-time students similarly situated. School officials should not have the authority to arbitrarily exclude any class of students except those who do not qualify under the law.

3. Part A, subparts 1 and 2 should be amended to enable all part-time students in degree credit programs, or the equivalent, to be eligible for grants in proportion to the course load taken instead of for a minimum of a half-time course load.

While these changes will not remove all of the discrimination against part-time students in postsecondary education, they will represent a giant step in that direction. It will be a step for which millions of Americans will be grateful.

Mr. Chairman, I deeply appreciate this opportunity to appear before the committee on this matter of great importance to the American people. I would be happy to answer any question any member of the committee may have.

Mr. O'Hara. Thank you very much, Mr. Pitchell. Perhaps you could tell us, in the traditional collegiate setting of 15 credit hours per semester being considered a normal load and 120 hours for graduation, what constitutes a full-time student and a part-time student? What is the breakoff point?

Mr. Pitchell. I think under Federal regulations the determination is generally up to the institution, but mostly it is 12 undergraduate credit hours and 8 graduate credit hours, seminar hours.

Mr. O'Hara. So it is your impression that for most institutions in the traditional collegiate framework, 12 hours is full-time for the undergraduate?

Mr. Pitchell. Right.

Mr. O'Hara. So under your proposal for proportionate assistance, if someone at one of those institutions was taking 6 hours they would be considered halftime.

Mr. Pitchell. Generally speaking; yes, sir.

Mr. O'Hara. And so, if you said halftime students were eligible you would be talking about someone who is taking at least 6 hours?

Mr. Pitchell. Yes. In some places they would say nine.

Mr. O'Hara. Would halftime be nine?

Mr. Pitchell. In some cases, but mostly it would be six.

Mr. O'Hara. Then if you want to go below that you are talking about people who are taking less than 6 credit hours.

Mr. Pitchell. Occasionally, as for evening school, students are taking one course instead of two or three; sometimes taking two, sometimes three. Many evening college students are just as serious as any other student in the regular program will be shifting, depending upon circumstances, one, two, maybe three courses.

Mr. O'Hara. You said that three-quarters—I think that was your testimony—of the part-time students in some survey were found to be working in the labor force.

Mr. Pitchell. Yes, sir; that is the Census Bureau survey.

Mr. O'Hara. When you say "in the labor force," I don't believe you are referring to people who are full-time mothers, housewives, et cetera.

I think a fair percentage of the remainder, probably a major part of the remainder, would be persons who are engaged full time in the process of rearing a family.

Mr. **Pitchell.** It may very well be. The percentages are higher in certain institutional settings.

Mr. **O'Hara.** I think we could safely say that very close to all of our part-time students are people who are in one way or another full-time employed either as part of the labor force or in the business of child rearing.

Mr. **Pitchell.** I think so. Depending upon how you define post-secondary education, there are many people, roughly around 15 percent or so, who take additional course work for personal reasons.

Mr. **O'Hara.** Maybe you have a few others who are people who have a health problem, or for one reason or another are not able to go to school full time even though they are not employed at the same time.

Mr. **Pitchell.** Mostly they are employed.

Mr. **O'Hara.** I found myself in such a situation during part of my collegiate career, where I couldn't go full time and I wasn't working, but there is a special circumstance in every case, either they are working or they have a problem of some kind that is preventing them from attending full time.

Under those circumstances, I question whether most of them could qualify under the various income tests. It is one thing to say, yes, the family income of part-time students is approximately the same as the family income of the full-time student, but the part-time student, I would imagine, for the most part would be classified as independent students, whereas the family income of a lot ot the full-time students would be the family income of dependent students.

And the tests for qualifying in an income sense for these programs are different for the independent and the dependent student. I very much doubt hardly any would qualify for help.

I think you make the point that not many woud qualify.

Mr. **Pitchell.** I said not many would qualify under the halftime load rather than on the income.

Mr. **O'Hara.** I think under the various income tests practically none of them would qualify. One would have to run a sample and try to find out.

Mr. **Pitchell.** My own judgment would be many of them qualify, particularly those who have their own families. At the beginning of their career many of them go back to school for additional education after they get married and find that lack of education is hurting them.

We have some very good data on the number of such persons who come back to improve their job status, their economic potential. Many of them are very poorly paid and are coming back precisely because of low income. They have a wife and/or family to support and it seems to me they would qualify on family income for themselves and their family and are precisely the people who need some help; in fact, more so than many of the full-time students whose parents qualify with income in the upper limits of the eligible brackets, $12,000 to $15,000, whereas many of these other people are at $6,000 and $8,000 and are working.

But, in any case, I just feel there must be a sense of equity here even if the number is 100,000 or 200,000 in the country. If the need is more serious for some part-time students than other full-time students it would seem to me being unfair to exclude arbitrarily all part-time students regardless of need in favor of full-time students, not regardless of need, but at least up to a certain level of need as defined by both statute and regulations.

In other words, it is the exclusion of those who may be in need regardless of the numbers that disturbs us greatly. If the need is greater and they are working hard and paying taxes on whatever income they have and they are being denied access to the student aid program arbitrarily without any consideration of their need in relation to other students, then it would seem to me that we have an inequitable situation.

Mr. O'Hara. I think it is inequitable but I am not sure how much this action would do to help it. I think you are making a good point and I accept that point, that it is inequitable for those who find themselves in this situation where they otherwise would qualify for the assistance.

Mr. Pitchell. May I give a few cases?

Mr. O'Hara. I am not sure how many there are.

Mr. Pitchell. My association happens to believe in this and we encourage our employees to take additional work to improve themselves in their job or improve themselves personally.

Mr. O'Hara. Presumably you are paying them enough.

Mr. Pitchell. We pay. Last year we had a young minority group woman who had a young child to support, had some ADC money, but wanted to improve herself. She could not afford it. She was being paid around $4,500 a year. She had a clerical job.

She wanted to learn bookkeeping. I went before my association and asked them to pay for the cost of her education on a part-time basis. She went in the evening. That kind of person is the person who is arbitrarily excluded from this program.

We did pay for her additional work.

Mr. O'Hara. I don't have the family contribution schedule before me but I have got a hunch that she would be arbitrarily excluded by the family contribution schedule even if she weren't by the denial of assistance to part-time students.

Let me assure you you have to be destitute in order to get any help, or very, very close to it. For an independent student it isn't quite so hard as for a dependent student, but for the independent student you really have to be.

Mr. Pitchell. Perhaps we might suggest that independent student who is in a situation like this should qualify at least as well as the dependent student because their need appears to be quite strained.

Mr. O'Hara. That has been one of our problems when we reviewed the family contribution schedules; it is very difficult for them to qualify.

I thank you very much. As you know, we have this full committee meeting at 10:30 and we do have two more witnesses. We would like very much to hear our next two witnesses.

The next witness will be Mr. Jerry S. Davis, who is research associate of the Southern Regional Education Board. Mr. Davis, we would like to hear your testimony before we have to go to the full committee meeting.

STATEMENT OF JERRY S. DAVIS, RESEARCH ASSOCIATE, SOUTHERN REGIONAL EDUCATION BOARD, ATLANTA, GA.

Mr. Davis. Since our time is short I will try to do it as quickly as possible.

First of all, I want to thank you for inviting me here this morning. I very much appreciate this opportunity to discuss student financial aid problems with you. I want to preface my remarks by noting that I am here at the encouragement of my employer, the Southern Regional Education Board, but my comments should not be interpreted as reflections of any official SREB policy or persuasion.

While I am interested in all financial aid programs, my comments today concern the Basic Educational Opportunity Grant program. I want to do two things: One, to report on some research we completed which indicates that the formula for distributing Basic Grant dollars will not effectively achieve the results I think Congress intended and two, to propose a new formula which is more likely to achieve those results, as well as accomplish some additional goals.

Our recent study of student financial aid needs and resources for undergraduates in the 14 SREB States provide the data for most of what follows. While the data are based on the 1971–1972 academic year, the factors considered in the report do not rapidly change over time, they can be treated as current figues for discussion purposes.

The enrolled students in our region have an aggregate financial need in excess of a billion dollars. There is, however, over $828 million in financial aid available from all sources toward meeting that need. Almost $400 million of those dollars are available through the Federal institutionally based programs and the guaranteed loan programs.

Without Federal Government programs our students would be in dire straits. Because of the ways in which financial aid is distributed among students and institutions and because of the ways in which students of different financial circumstances distribute themselves among institutions of varying costs, there is a need for an additional $339 million in financial aid to enable just the students who are currently enrolled to reasonably afford their educational costs.

I estimate that at least another $100 million would have to be made available in order for all qualified persons who so desire to participate in some form of postsecondary education. So, in our region, we are talking about a financial aid problem which approaches a half-billion dollars.

The data for our study are summarized in table 1. You will note that the percentages of students, need, financial aid, and additional aid required—or unmet need—vary considerably by institutional types.

For example, students at the 4-year public colleges have only 49 percent of the total need but have access to 55 percent of the total aid which, consequently, leaves them with 37 percent of the unmet need problem.

[The table referred to follows:]

TABLE 1.—ENROLLMENT, AGGREGATE FINANCIAL NEED, AVAILABLE FINANCIAL AID, AND UNMET NEED, BY INSTITUTIONAL TYPES, FULL-TIME UNDERGRADUATES, SREB STATES, 1971-72

[Dollar amounts in millions]

Institutional type	Enrollment		Financial need		Available aid		Unmet needs	
	Number (thousands)	Percent	Amount	Percent	Amount	Percent	Amount	Percent
4-year public	1,634.17	55.8	$534.60	49.1	$454.33	54.8	$126.85	37.4
4-yr nonpublic	582.79	19.9	348.82	32.0	228.72	27.6	136.93	40.4
2-yr public	512.51	17.5	140.06	12.9	108.01	13.0	43.15	12.7
2-yr nonpublic	64.43	2.2	28.15	2.6	18.27	2.2	13.10	2.9
Public vocational-technical	134.72	4.6	37.59	3.4	19.45	2.4	19.00	5.6
Total	2,928.62	100.0	1,089.22	100.0	828.78	100.0	339.03	100.0

Mr. Davis. On the other hand, 4-year nonpublic college students have 32 percent of the need, access to 28 percent of all available aid, and over 40 percent of the unmet need.

This brings us two problems to which new aid programs, regardless of their type, should be addressed. They should supplement existing aid dollars and complement their distribution—or fill in the current gaps in financial aid. The BOG program meets the first criteria, but not the second.

We estimated that a fully funded BEOG, under the current family contribution schedule and the maximum formula would have generated $715 million in aid for these students. The way this aid would have been distributed is displayed in table 2.

[The table referred to follows:]

TABLE 2.—DISTRIBUTION OF BASIC GRANT AWARDS UNDER FULL FUNDING, BY INSTITUTIONAL TYPES, SREB STATES

[Amounts in millions

Institutional type	Basic grant amount	Percentage of grants	Percentage of aggregate financial need
4-yr public	$385.81	54.0	49.1
4-yr non-public	153.39	21.5	32.0
2-yr public	122.66	17.2	12.9
2-yr non-public	17.56	2.4	2.6
Public Vo-tech	35.28	4.9	3.4
Total	714.70	100.0	100.0

Mr. Davis. Fifty-four percent of the basic grant aid dollars would have gone to 4-year public college students who have only 49 percent of the need. While 32 percent of the financial need is experienced by 4-year nonpublic college students, they would have received only 22 percent of the grant dollars. I will show you why this is so in a few moments, but let us first compare the distribution of institutionally based Federal aid dollars with the basic grant distribution under full funding.

This comparison is offered in table 3. You will note that the distribution of these dollars more closely corresponds to the distribution of need than does the distribution of basic grant dollars under the full-funding condition.

[Table 3 follows:]

TABLE 3.—PERCENTAGE DISTRIBUTION OF INSTITUTIONALLY-BASED FEDERAL STUDENT AID, ESTIMATED BASIC GRANT AID, AND AGGREGATE FINANCIAL NEED, BY INSTITUTIONAL TYPES, SREB STATES

Institutional type	Institutionally based programs	Basic grant aid	Aggregate financial need
4-yr public	48.8	54.0	49.1
4-yr non-public	35.3	21.5	32.0
2-yr public	11.3	17.2	12.9
2-yr nonpublic	3.3	2.4	2.6
Public Vo-tech	1.3	4.9	3.4
Total	100.0	100.0	100.0

Mr. Davis. To give you an estimate of the impact of BEOG distribution schedule on financial need in our region, table four shows how unmet need would have been distributed if all Federal institutionally based moneys had been awarded by the BEOG formulas in 1971–72.

Instead of having 44 percent of the unmet need, the nonpublic college students would have had 54 percent of the unmet need.

[Table 4 follows:]

TABLE 4.—UNMET FINANCIAL NEED UNDER INSTITUTIONALLY-BASED FEDERAL STUDENT AID PROGRAMS AND BASIC GRANT PROGRAM, BY INSTITUTIONAL TYPES, SREB STATES

[Dollar amounts in millions]

Institutional types	Institutionally based programs		Basic grant aid	
	Amount	Percent	Amount	Percent
4-year public	$126.85	37.4	$115.04	33.9
4-year nonpublic	136.93	40.4	168.27	49.6
2-year public	43.15	12.7	29.75	8.8
2-year nonpublic	13.10	3.9	15.14	4.5
Public vocational-technical	19.00	5.6	10.82	3.2
Total	339.03	100.0	339.02	100.0

Mr. Davis. Before you think I am building a case for institutionally-based Federal aid and more support for nonpublic institutions, let me say I am not. I am building a case for students, for their freedom of access to and freedom of choice among postsecondary educational opportunities.

The data here seem to indicate that a fully-funded BEOG program under the current schedule would help needy students into postsecondary education. However, the institutions many would be forced to choose would be the low-cost community and junior colleges or public vocational-technical schools.

Beginning a postsecondary education at one of these institutions is good if the student has the opportunity to continue to a 4-year institution if he so desires. If most Federal aid is distributed under the current BEOG formula, the low-income student is likely to be unable to afford to transfer and continue his education.

I believe that low-income students should have the financial opportunity to attend private—generally higher cost—institutions if they so desire. The enrollment of such students at private college is important to the survival of these institutions.

The private colleges have, incidentally, enrolled proportionately more low-income students than have 4-year public colleges since 1966. I don't want that history inhibited.

This is particularly important in our region since the private black colleges enroll over one-fourth of all black students who are enrolled in postsecondary education. Over two-thirds of these students come from families with less than $6,000 annual income.

I want to turn now to some examples of how a fully-funded BEOG program under the current formula might affect student educational choices. Table five offers some "options" for students from three different family income circumstances.

The family contributions are based on the median income in the interval and an assumed average 2.5 dependents, one of whom is in college. The CSS need analysis system contributions schedule was used.

We have also assumed a student self-help contribution of $475 per year from summer and term-time earnings. This is about average for our region.

[Table 5 follows:]

TABLE 5.—FULL-FUNDING CURRENT FORMULA BEOG DISTRIBUTION EXAMPLES BY INSTITUTIONAL TYPE AND FAMILY INCOME DEPENDENT RESIDENT STUDENTS

Institution type	Cost	Family contribution	Need	Student contribution	Remaining need	Basic grant	Unmet need	Unmet need/need
Less than $6,000:								
4-yr public	$2,010	0	$2,010	$475	$1,535	$1,005	$530	0.264
4-yr private	3,210	0	3,210	475	2,735	1,400	1,335	.416
2-yr public	1,855	0	1,855	475	1,380	930	450	.243
2-yr private	2,410	0	2,410	475	1,935	1,205	730	.303
Vocational-technical	1,900	0	1,900	475	1,425	950	475	.250
$6,000 to $8,999:								
4-yr public	2,010	285	1,725	475	1,250	920	330	.191
4-yr private	3,210	285	2,925	475	2,450	920	1,530	.523
2-yr public	1,855	285	1,570	475	1,095	920	175	.112
2-yr private	2,410	285	2,125	475	1,650	920	730	.344
Vocational-technical	1,900	285	1,615	475	1,140	920	220	.136
$9,000 to $11,999:								
4-yr public	2,010	875	1,135	475	660	400	260	.229
4-yr private	3,210	875	2,335	475	1,860	400	1,460	.625
2-yr public	1,855	875	980	475	505	400	105	.107
2-yr private	2,410	875	1,535	475	1,060	400	660	.430
Vocational-technical	1,900	875	1,025	475	550	400	150	.146

Mr. DAVIS. Ideally, a grant program should deliver the most money to students with the least ability to pay for any education. A grant program should also make the amounts of remaining need, after grants are applied, close to equivalent for students of different financial circumstances who choose different cost institutions.

Some observers have suggested that grants should also provide an incentive to students to enroll in some institutions. But the research has not shown whether or how much grant money will provide an incentive which will enroll a student who has not predisposed to attend some institution anyway.

In table 5, the average grant to the student in the "less than $6,000" interval is $1,098. But the average grant to the student in the next higher interval, whose family can contribute $285 toward his education, is $920, or only $178 less.

And in the next interval the average grant is $400, a difference of $698, to a student whose family can contributee $875 more than the lowest income family.

Clearly, the current formula does not proportionately deliver grant money to the students with the lowest ability to pay. This is because the BEOG family contribution schedule does not correspond to the CSS family contribution schedule or, for that matter, other commonly used schedules.

After grants are applied, the 4-year private college student, especially as his family income increases, has proportionately more of his original financial need left to cope with than does the 4-year public college student—compare the percentages in the last column, the original cost of the 4-year college.

But the unmet need of the lowest income student who chooses the private college is 152 percent higher. Clearly, the current formula doesn't help to make remaining or unmet needs at different types of institutions equivalent. The reason for this is related to the $1,400 maximum and the one-half cost limitations on the grant.

If there is an incentive provided by the current BEOG formula, it is likely to be to encourage the students to enroll at the 2-year public colleges or vocational-technical institutes.

I tried a variety of different changes in the formula to help alleviate the problems described here. These include changing the family contributions, the maximum grants, and dropping the one-half cost limitation singly or in combination.

I haven't found one that is completely satisfactory, but I haven't given up either. With the one proposed here, I assumed that the BEOG family contribution schedule would be correspondent to the CSS and other commonly used schedules.

I will admit that all need analysis systems have their problems, including the CSS, but others seem more equitable than the BEOG schedule—especially if it is desirable to get more grant money to the students with the least ability to pay for any postsecondary education.

The formula I decided upon is: $1,000 minus the family contribution under the CSS or similar schedule, but with a supplement of one-half the amount of total costs in excess of $1,800.

In order to qualify for a basic grant, the student's total family contribution cannot exceed $1,000. If the student attends a low-cost college, he only has to obtain an additional $800 to afford his education.

By a low-cost college I mean a 2-year college where the average student budget in our region is about $1,855. If he attends a higher cost institution, the BEOG program would meet one-half of his costs above $1,800. Table 6 shows how this formula might influence typical student options.

[Table 6 follows:]

TABLE 6.—FULL-FUNDING PROPOSED FORMULA BEOG DISTRIBUTION EXAMPLES BY INSTITUTIONAL TYPE AND FAMILY INCOME DEPENDENT RESIDENT STUDENTS

Institution type	Cost	Family contribution	Need	Student contribution	Remaining need	Basic grant	Unmet need	Unmet need/need
Less than $6,000:								
4-yr public	2,010	0	2,010	475	1,535	1,105	430	0.214
4-yr private	3,210	0	3,210	475	2,735	2,705	1,030	.321
2-yr public	1,855	0	1,855	475	1,380	1,025	355	.191
2-yr private	2,410	0	2,410	475	1,935	1,305	630	.216
Vocational-technical	1,900	0	1,900	475	1,425	1,050	375	.197
$6,000 to $8,999:								
4-yr public	2,010	285	1,725	475	1,250	820	430	.249
4-yr private	3,210	285	2,925	475	2,450	1,420	1,030	.352
2-yr public	1,855	285	1,570	475	1,095	740	355	.226
2-yr private	2,410	285	2,125	475	1,650	1,020	630	.297
Vocational-technical	1,900	285	1,615	475	1,140	765	275	.232
$9,000 to $11,999:								
4-yr public	2,010	875	1,135	475	660	230	430	.379
4-yr private	3,210	875	2,335	475	1,860	830	1,030	.441
2-yr public	1,855	875	980	475	505	150	355	.362
2-yr private	2,410	875	1,535	475	1,060	430	630	.410
Vocational-technical	1,900	875	1,025	475	550	175	375	.366

Mr. Davis. Under this proposed formula, the average grant to the lowest income student is larger than the average under the current formula and as family's ability to contribute toward their child's education increases, the grant is reduced by a corresponding amount.

All students, regardless of their family's contributions, are left with the same remaining need if they attend a similar cost institution. In this regard, the proposed formula is more equitable than the current formula.

The unmet need, or the additional aid required, for the lowest income students is less under the proposed formula than under the current formula and the differences between unmet need at higher cost and at lower cost institutions is less.

The percentages of unmet need over original need that each student has left after the proposed formula basic grant is applied are more equivalent than they are under the current formula.

There is still an incentive to attend the lower cost institutions because the unmet need would be smaller there, but the differences are less, which indicates it is more likely needy 2-year college students could afford the differences in costs transferred to a 4-year college.

With regard to reducing the relative differences, the proposed formula is only slightly better than the current formula. However, the absolute dollar amounts of unmet need for a student who wishes to attend a private 4-year college is reduced by 30 percent. At the private 2-year colleges, the reduction is 10 percent.

Table 7 compares the distributions of basic grant aid under the current and proposed formulas with the distribution of financial need in our region. You will note that the distribution under the proposed formula more closely approximates the distribution of need than does the current formula.

[Table 7 follows:]

TABLE 7.—PERCENTAGE DISTRIBUTION OF BASIC GRANT AID UNDER THE CURRENT AND PROPOSED FORMULAS, AND AGGREGATE FINANCIAL NEED, BY INSTITUTIONAL TYPES, SREB STATES

Institutional type	Current formula	Proposed formula	Aggregate financial need
4-yr public	54.0	46.9	49.1
4-year nonpublic	21.5	27.3	32.0
2-year public	17.2	17.3	17.9
2-year nonpublic	2.4	2.7	2.6
Public vocational technical	4.9	5.8	3.4
Total	100.0	100.0	100.0

Mr. Davis. One additional thing that the new formula does is to create an incentive for higher cost institutions—institutions where student budgets are above $1,800—to enroll more low income students.

For every dollar of costs above $1,800, 50 cents in grant income from the BEOG program would be available to the institution. But this would only apply to higher cost institutions which encourage the enrollment of low income students. The current formula does not create this incentive.

In closing, I want to suggest that you do two things. One, consider changing the BEOG family contribution schedule to one which corresponds with other need analysis systems, or more equitable systems, and, two, ask your staff to explore the possibilities of adopting the proposed formula or a variation of it.

The BEOG program is a tremendous concept but the formulas on which it is based will not go far toward increasing "basic educational opportunity."

Thank you.

Mr. O'Hara. Thank you, Mr. Davis.

Under your formula no student's family contribution can exceed $1,000, the reasonably expected family contribution, or he doesn't get anything.

Mr. Davis. That is right.

Mr. O'Hara. And under your CSS schedule, at what point does this family with two-and-a-half children——

Mr. Davis. With two-and-a-half children the breaking point under the current CSS schedule with a family with no unusual circumstances would be somewhere around $11,000. With one child it would be considerably less. With three children it would be in the neighborhood of $12,000.

Mr. O'Hara. Let's take the Detroit auto worker, who is making $11,000. If his child wants to go to an institution with a basic cost of more than $1,800, he just has to find the money somewhere.

Mr. Davis. Yes.

Mr. O'Hara. But if the auto worker happened to be unemployed and his child wanted to go to an institution where the cost was more than $1,800, you would help him.

Mr. Davis. No; the unemployment——

Mr. O'Hara. In other words, you are saying that when the cost gets up to $1,800 we have got a gap between the expected family contribution of that autoworker of $800. Under your system the gap wouldn't have been as great at that point.

Mr. Davis. It would not have been.

Mr. O'Hara. So, at the $1,800 cost of education the autoworker's child has an $800 gap, which is more than the gap of the very low income child at that stage of the game?

Mr. Davis. Yes.

Mr. O'Hara. But then when the cost goes over $1,800 you start supplementing the one who has the lesser gap.

Mr. Davis. The one who has the lesser ability to pay.

Mr. O'Hara. But the lesser gap too between expected family contribution and actual cost of education.

Mr. Davis. If the family contribution is above $1,000; yes. I varied the contribution schedules, playing with the contribution schedules, raising them up to $1,200, $1,400 to $1,600, and so forth, and also reducing them, and then changing the supplement over the cost and the particular example I had given you here is one that is best suited to our particular region.

Also, I just did some calculations as to how much more it would cost than your current formula. It would raise the cost in our region about 1 percent.

Mr. O'Hara. I am concerned as we had a witness yesterday testify to this point—let's take our hypothetical autoworker with the two-and-a-half kids and the $11,000 income.

Mr. DAVIS. One of the things that would help your hypothetical autoworker is if you change the contribution schedule. I am in full accord with your feeling that the contribution schedule is unrealistic for that particular family group. That, I think, would answer part of your concern, if we changed the contributed schedule.

Mr. O'HARA. Your system, which brings in again the $1,800, at that point only helps those who already have been helped, it seems to me that unless you do make a change in the contribution schedule, that does increase the discrimination against that average income.

Mr. DAVIS. It does. The assumption, when I was working with this, was that, again as I mentioned in the earlier comments, the grants be directed toward the students with the least ability to pay for any form of postsecondary education and let that be the real key more than the need or the difference between ability to pay for postsecondary education.

My major concern is getting grant money to students with no, or virtually no ability to pay for postsecondary education.

Mr. O'HARA. I am not so sure that is the most equitable way of doing things. In fact, I have real reservations about that. And if you will look at the declining percentages of young people from average-income families attending postsecondary education you wonder if we are doing the right thing, if our intervention isn't producing two effects, as one of our earlier witnesses today suggested.

It is making it easier for the lowest income and harder for the next income. I want to make sure we aren't doing that. But your analysis of the way in which the basic grant operates is very good, and your suggestions are worthy of our consideration.

We are going to be taking up the family contribution schedule question in another few days and we are going to look into that.

Mr. DAVIS. I am not satisfied with the proposal I have offered here. As I said, I want to continue to work on it, but the one that you have is really bad and it really needs to be changed.

And the contribution schedule is one of the keys, the $1,400, and the one-half cost limitation is very important.

Mr. O'HARA. I think the CSS and ACT formulas have various deficiencies. I have heard a lot of criticism but much of it is with the qualifier you have had, that you haven't really managed to come up with one you really like.

I am not at all certain it is possible to come up with one on which there is general agreement. But, in any event, we will be looking into that.

Mr. DAVIS. I think it probably is. I am more optimistic about it than you are.

Mr. O'HARA. I don't want our last state to be worse than our first.

Thank you very much.

We are going to keep going for a few minutes until they are near a quorum downstairs.

Mr. O'HARA. Our next witness is Moiece Palladino of the Associated Students of San Francisco State University. Ms. Palladino has asked to be heard on the problems confronting the independent student.

Ms. Palladino, we would like to hear from you.

STATEMENT OF MOIECE PALLADINO, ASSOCIATE JUSTICE, ASSOCIATED STUDENTS, SAN FRANCISCO STATE UNIVERSITY

Ms. PALLADINO. Good morning, Mr. Chairman.

Money, or the lack of its availability to those students who have the greatest need, is the key factor for the Associated Students of San Francisco State University for coming before you today.

Our student body has a mean age of 26, whose average income is so low that over 50 percent of the 12,000-plus full-time students applied for financial assistance in 1973. Of that, over 4,500 students are currently receiving financial aid in one or more Federal aid categories.

First, a few realities of our campus financial aid office. In 1973, our campus financial aid office returned some $46,000 in what we believe was unused Work-Study funds, although jobs on and off campus went begging for qualified students and students who might be otherwise eligible were refused certification for a number of reasons.

One of our major problems was in the eligibility of students. It is assumed that all students earn $600 during summer months, this $600 is automatically included as "income" in the projected years' budget of the individual student, whether or not the monies were earned.

Veterans, divorced women with children, and many others were refused financial assistance if their parents earned more than $15,000. Yet, these same people worked and paid their own taxes for a number of years before returning to college.

On the advice of Congressman Burton's office in San Francisco, we collected the case histories of five students and their problems with their initial application for financial assistance at San Francisco State University.

Every one of these students is "poor" by every Federal definition of poverty. Yet, assistance was denied them until it was brought to the attention of the financial aid director.

Fortunately, we have had a financial aid director since August of 1973 who has been more than cooperative, but even with his cooperation it has been agreed we need some kind of Federal clarification on how to deal with the independent student status, with the eligibility of categorical aid recipients, that is, Aid to Families with Dependent Children, ADC here, disabled students, SSI recipients, supplementary social security receipients and vets, how we think some of this stuff could be dealt with in terms of the creation of an ongoing individual student grievance procedure.

In the two other programs of HEW that I have ever dealt with, both Health and Welfare, we have always had some kind or some form of a grievance procedure. It is really appalling to me that there is no way an individual student can go up and challenge the amount of money or how that need was computed at the financial aid office on his campus.

We hope to set up a mechanism this fall, with the help of our administration, to do something. We would like to see it handled in a Federal kind of way also. We would also like to raise the question of closed-end appropriations in financial aid programs.

The comment that I have heard for the 2 days I have been here has been if you make more people eligible the financial aid dollar is shrinking, then you will have more people fighting over the crumbs that are out there at this point.

Some of the case histories—of five women, one of them being myself. Toni Mitchell, whose parents died when she was 17, managed to complete high school and now got into San Francisco State, but here total income was Social Security Survivors Benefits and she was denied aid because she had no need.

All these situations were corrected once we were able to deal with our financial aid director, but this is only such a narrow spectrum of the problem. We only hear of just so few people.

Naomi Adams, a mother of two, was refused training by the local welfare department and managed to get into San Francisco State under a special admit program. She happens to be doing quite well. She has got about a 2.8 average.

She is raising two children. She carried an 18-month old baby to classes for about half a semester, and I have known her from the community. Finally, I asked her why. She said because she wasn't given any financial aid. They said she had no need, although when we went there they recomputed it and said she was eligible to some money for that year.

Again, it goes on. Women who have worked, are disabled, men as well. I wasn't able to find any case histories to bring of some men, but I think it clearly supports the need for an ongoing kind of grievance procedure on campuses so the individual students can go back and say, "This is computed incorrectly."

Only in one program can you challenge at this point, and that is under the Basic Opportunity Grant. Under the Federal insured student loans, NDSL loans, under none of the other loan programs can you do this.

Only with the aid of a financial aid director like Dr. Ellis Gedney have we been able, as a student body, to do these things. That is why we are here today. Both Dr. Gedney and Associated Students feel so strongly that it was necessary to come to you and talk to you to see if something can be resolved in terms of the clarification of the independent student, the clarification of categorical recipients, vis-a-vis student aid, and the question of the whole grievance procedure being set up on an individual student basis.

Mr. O'Hara. Your examples involve people of very low income who were denied help. I wonder if maybe we don't need a change, when dealing with people of very low income, more in SSI, AFDC, that sort of thing.

Ms. Palladino. We have tried it.

Mr. O'Hara. Let's take someone who has an income of $1,500 a year and they want to go to school. If they have an income of $1,500 a year and wanted to go to work, or were unable to work for some other reason, they would be eligible for payments under various income maintenance programs.

I am wondering why they shouldn't be eligible under the same sort of income maintenance programs while they are going to school.

Ms. Palladino. This is the question we have brought up. It is another hurdle to jump. The papers you have got to fill out, I am certain you are more than aware than any of us as students, is a complete jungle and tangle of papers.

Mr. O'Hara. It is very discouraging. It cuts a lot of people off right at the beginning.

Ms. Palladino. And especially the people who have already spent—in California, until recently, we had a 19-page form just to apply for assistance. You can just jump so many hurdles and you are bound to fall down somewhere along the line.

Education for a low-income person is a necessity. It is a necessity for us to break that cycle. These are people who have demonstrated the ability and the motivation, who will work when they can, as Mrs. Moore is now working for the Associated Student Body, but still doesn't make enough money. She still has to get welfare payments.

The one suggestion I had for cutting through some of the paper work is here you get a Medicaid card which is an identification card from the Health and Welfare of HEW, saying that you are indeed poverty stricken, or at least under all the Federal guidelines you are poor.

If that card—in California it is called Medical and is issued on a monthly basis—in and of itself would establish independence and also tells if there is any outside income. It has many pieces of information on it: whether a person has outside income, it gives verification of address, of age, of social security number, if you are on a social security program, or a case number.

Mr. O'Hara. I am wondering why for the low-income independent student it seems to me that in the ideal framework of assistance that income maintenance programs ought to take care of that low-income independent student's living expenses and all that the educational assistance programs ought to be required to do, if we had the right kind of income maintenance programs, would be to take care of the additional expenses as a result of their attendance at the institution.

Ms. Palladino. I think the key word that you hit was "ought."

Mr. O'Hara. I am not saying it does. Please don't interpret my remarks to mean that. The problem is we already have a tough time, as you well know from your own testimony—you indicated it—getting enough total dollars into the program.

Ms. Palladino. Or at least spreading that.

Mr. O'Hara. I don't want to have student assistance carrying some of the burden for income maintenance programs. It can't carry the educational burden.

Ms. Palladino. And we are not allowed under Federal sections and under the California manual of the Welfare Department 44.111-43, to accept any money outside of what we need for educational expenses only, so we are prohibited by law to accept any money over and above what we are receiving from an income maintenance grant, and that supports our living arrangements.

Mr. O'Hara. I am going to ask the staff to schedule as witnesses before this hearing is over some people who can talk to us from Social Security and HEW about the applicability of income maintenance programs to low income independent students, and to low income families who have children above the usual 18 who are still part of the household who are attending college.

I think maybe one of our approaches ought to be toward improving income maintenance programs.

Ms. PALLADINO. But at this point, if you could deal with the $600 that is automatically assumed to be earned, and this is by students of working families as well, it is just automatically included and it is in the Federal legislation.

If that could be money that had to be justified by the financial aid officer as actual earned moneys and not assumed earned moneys, that would stop one of the problems we have for both working families and low income families.

And the other one would be the grievance procedure for the individual student with his individual financial aid office on these problems.

Mr. O'HARA. Thank you very much, Ms. Palladino, for your help today.

Ms. PALLADINO. Thank you, Congressman.

Mr. O'HARA. The special subcommittee will now stand in adjournment until 10 o'clock tomorrow morning in room 2257, where we will continue hearing testimony with respect to Federal grant programs.

[Whereupon, at 11:50 a.m. the subcommittee recessed, to reconvene at 10 a.m. Thursday, June 13, 1974.]

STUDENT FINANCIAL ASSISTANCE

(Grant Programs)

THURSDAY, JUNE 13, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara, presiding.

Present: Representatives O'Hara and Dellenback.

Staff members present: Jim Harrison, Staff Director; Elnora Teets, Clerk; and Robert C. Andringa, Minority Staff Director.

Mr. O'Hara. The special subcommittee will come to order.

Today's testimony will end our examination of the grant component of existing student financial aid programs. We will be focusing primarily on the so-called trio programs today, those grants authorized by part A(4) of title IV, the special programs for students from disadvantaged backgrounds.

I think we should have the text of that authorizing legislation in the record at this point.

(The statutory authorization referred to is Title IV, Part A, subpart 4 of the Higher Education Act of 1965, as amended:)

Subpart 4—Special Programs for Students From Disadvantaged Backgrounds

PROGRAM AUTHORIZATION

Sec. 417A. (a) The Commissioner shall, in accordance with the provisions of this subpart, carry out a program designed to identify qualified students from low-income families, to prepare them for a program of postsecondary education, and to provide special services for such students who are pursuing programs of postsecondary education.

(b) For the purpose of enabling the Commissioner to carry out this subpart, there are authorized to be appropriated $100,000,000 for the fiscal year ending June 30, 1973, and for each of the succeeding fiscal years ending prior to July 1, 1975.

(20 U.S.C. 1070d) Enacted June 23, 1972, P.L. 92-318, sec. 131(b)(1), 86 Stat. 258.

AUTHORIZED ACTIVITIES

Sec. 417B. (a) The Commissioner is authorized (without regard to section 3709 of the Revised Statutes (41 U.S.C. 5)) to make grants to, and contracts with, institutions of higher education, including institutions with vocational and career education programs, combinations of such institutions, public and private agencies and organizations (including professional and scholarly associations), and, in exceptional cases, secondary schools and secondary vocational schools, for planning, developing, or carrying out within the States one or more of the services described in section 417(a).

(b) Services provided through grants and contracts under this subpart shall be specifically designed to assist in enabling youths from low-income families who have academic potential, but who may lack adequate secondary school preparation or who may be physically handicapped, to enter, continue, or resume a program of postsecondary education, including—

(1) programs, to be known as "Talent Search" designed to—

(A) identify qualified youths of financial or cultural need with an exceptional potential for postsecondary educational training and encourage them to complete secondary school and undertake postsecondary educational training,

(B) publicize existing forms of student financial aid, including aid furnished under this title, and

(C) encourage secondary-school or college dropouts of demonstrated aptitude to reenter educational programs, including postsecondary-school programs;

(2) programs, to be known as "Upward Bound", (A) which are designed to generate skills and motivation necessary for success in education beyond high school and (B) in which enrollees from low-income backgrounds and with inadequate secondary-school preparation participate on a substantially full-time basis during all or part of the program;

(3) programs, to be known as "Special Services for Disadvantaged Students", of remedial and other special services for students with academic potential (A) who are enrolled or accepted for enrollment at the institution which is the beneficiary of the grant or contract, and (B) who, by reason of deprived educational, cultural, or economic background, or physical handicap, are in need of such services to assist them to initiate, continue, or resume their postsecondary education; and

(4) a program of paying up to 75 per centum of the cost of establishing and operating Educational Opportunity Centers which—

(A) serve areas with major concentrations of low-income populations by providing, in coordination with other applicable programs and services—

(i) information with respect to financial and academic assistance available for persons in such areas desiring to pursue a program of postsecondary education;

(ii) assistance to such persons in applying for admission to institutions, at which a program of postsecondary education is offered, including preparing necessary applications for use by admission and financial aid officers; and

(iii) counseling services and tutorial and other necessary assistance to such persons while attending such institutions; and

(B) serve as recruiting and counseling pools to coordinate resources and staff efforts of institutions of higher education and of other institutions offering programs of postsecondary education, in admitting educationally disadvantaged persons.

The portion of the cost of any project assisted under clause (4) in the preceding sentence which is borne by the applicant shall represent an increase in expenditure by such applicant for the purposes of such project.

(c) Enrollees who are participating on an essentially full-time basis in one or more services being provided under this section may be paid stipends, but not in excess of $30 per month except in exceptional cases as determined by the Commissioner.

(20 U.S.C. 1070d-1) Enacted June 23, 1972, P.L. 92-318, sec. 131(b)(1), 86 Stat. 258, 259.

Mr. O'HARA. As with the other programs, we have asked the Office of Education to provide us with technical background, and we have invited persons to testify today who have had experience with one or another of these programs in actual operation.

From the Office of Education, we will hear first from Dr. Leonard Spearman, who is accompanied by Dr. John Phillips and the usual panel. Thank you very much for coming back again, gentlemen.

There has been some suggestion here that you ought to be eligible for some of the perquisites that Members of Congress enjoy since you are spending so much time up here.

STATEMENT OF DR. LEONARD H. O. SPEARMAN, DIRECTOR, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS, BUREAU OF POSTSECONDARY EDUCATION, U.S. OFFICE OF EDUCATION, ACCOMPANIED BY CHARLES COOKE, JR., DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION); DR. JOHN D. PHILLIPS, ACTING ASSOCIATE COMMISSIONER FOR STUDENT ASSISTANCE, BUREAU OF POSTSECONDARY EDUCATION; AND DR. JOHN RISON JONES, PROGRAM OFFICER, DIVISION OF STUDENT SUPPORT AND SPECIAL PROGRAMS

Dr. PHILLIPS. Thank you, Mr. Chairman. Before we get started I would like to formally introduce the Director of the Division of Student Support and Special Programs, Dr. Leonard Spearman on my left, on my right, Dr. John Rison Jones, who is a program officer with the Special Programs Branch within the Division.

Dr. SPEARMAN. Mr. Chairman and members of the subcommittee, it is a pleasure to appear before you today and to briefly review the history and operations of the Student Special Services programs: Talent Search, Upward Bound, Special Services for Disadvantaged Students, and Educational Opportunity Centers.

The following statement is intended as a brief overview. Inasmuch as four programs are involved in this presentation, our testimony is somewhat lengthy. However, it is important to present certain specific aspects of these programs because of the particular nature of the services and activities they offer for America's disadvantaged, low-income population.

We will be happy to respond to questions from committee members who might wish us to expand upon any part of this written statement.

I. LEGISLATIVE HISTORY OF THE STUDENT SPECIAL SERVICES PROGRAMS

A. The Talent Search program was created by section 408(a) of the Higher Education Act of 1965 (Public Law 89–329), as a recruiting mechanism to identify students who would be eligible to receive educational opportunity grants authorized by the same legislation.

The program originally had three objectives: (i) To identify qualified youths of exceptional financial need and encourage them to complete secondary school and to undertake postsecondary educational training; (ii) to publicize existing forms of student financial aid; and (iii) to encourage secondary school or college dropouts of demonstrated aptitude to reenter educational programs, including postsecondary school programs.

The legislation designated eligible sponsoring agencies to include State and local educational agencies and other public and nonprofit organizations and institutions, and set a Federal funding ceiling of $100,000 per project.

Initial-year funding procedures were completed in the spring of 1966, and the program became operational on July 1, 1966.

The Higher Education Amendments of 1968 broadened the range of eligible sponsoring agencies for Talent Search projects to include institutions of higher education and combinations of such institutions, as well as public and private nonprofit agencies and organizations (including professional and scholarly associations), and public and private agencies and organizations. The 1968 amendments also modified the definition of persons eligible for Talent Search services from "qualified youth of exceptional financial need" to "qualified youths of financial or cultural need with an exceptional potential for postsecondary educational training." Consequently, the participation criteria shifted from solely one of "income" to one that included cultural need within a context of "exceptional potential" for postsecondary education.

The Education Amendments of 1972 (Public Law 92-318) removed the $100,000 project funding limitation, and added as eligible funding agents both institutions with vocational and career education programs and, in exceptional cases, secondary schools and secondary vocational schools.

The Upward Bound program originated from pilot projects funded during the summer of 1965 with private funds from the Carnegie Corporation and research and demonstration funds for experimental programs from the Office of Economic Opportunity. The pilot projects were designed as summer units for low-income students who would enter college the following September, but were in need of intensive college preparatory programs.

As the result were analyzed, the Office of Economic Opportunity decided that a year-round program was needed to meet the special needs of disadvantaged students preparing for college, including both residential summer and academic year follow-up activities, and extending service to students throughout the 2 or 3 years prior to high school graduation who could be characterized as "academic risks." The new program was subsequently authorized as a national program under the 1966 amendments to the Economic Opportunity Act, becoming a component of the Community Action Programs in the spring of 1966.

The Upward Bound program was intended "to generate skills and motivation necessary for success in education beyond high school for enrollees from low-income backgrounds with inadequate secondary school preparation for postsecondary education by enrolling students in essentially full-time project activities." Program guidelines required a residential summer program together with a limited academic year follow-up program (weekly meetings) to gauge the success of the summer's activities in terms of individual student performance in the secondary school classroom. The eligible student population was broadly defined as those with "academic risk" for postsecondary education in view of their inadequate levels of academic preparation in the secondary school system, and the lack of personal motivation for education.

The Higher Education Amendments of 1968 transferred the Upward Bound program from the Office of Economic Opportunity to the

Office of Education and established certain specific requirements for the program. Individual projects were required to: Effect arrangements to assure cooperation between institutions of higher education and secondary schools; provide health services for all participants; provide limited stipend payments up to a maximum of $30 per month per participant; and establish a maximum cost-per-student of $1,800 per annum, with the Federal share of expenditures limited to a maximum of 80 percent of total program costs ($1,440 per student).

The Education Amendments of 1972 removed all of the requirements cited above except for the maximum limitation on stipends. Removal of the non-Federal share requirements and the cost-per-student ceiling increased the Federal cost to 100 percent.

C. The Higher Education Amendments of 1968 amended Section 408 of the Higher Education Act of 1965, to provide a program of Special Services for Disadvantaged Students in College. The program was intended to provide remedial and other special services for students with academic potential who are enrolled or accepted for enrollment at higher educational institutions receiving funding to support such program activities. Eligible participants are defined as students who, by reason of deprived educational, cultural or economic background, or physical handicap, are in need of such services to successfully pursue a program of postsecondary education.

The 1968 legislation authorized projects to provide such specific types of activities as "(A) counseling, tutorial, or other educational services, including special summer programs, to remedy such students' academic deficiencies, (B) career guidance, placement, or other student personnel services to encourage or facilitate such students' continuation or re-entrance in a higher education program, or (C) identification, encouragement, and counseling of any such students with a view to their undertaking a program of graduate or professional education." Initial-year funding procedures were completed in the spring of 1970, and the program became operational on July 1, 1970.

The Education Amendments of 1972 omitted reference to any specific activities and defined the program as simply "remedial and other special services for students with academic potential" enrolled at host institutions.

D. The Education Amendments of 1972 further amended the Higher Education Act of 1965 to establish educational opportunity centers in areas with major concentrations of low-income populations to provide, in coordination with other applicable programs and services: (i) information with respect to financial and academic assistance available for persons residing in such areas desired to pursue a program of postsecondary education; (ii) assistance to such persons in applying for admission to institutions at which a program of postsecondary education is offered, including preparing necessary applications for use by admission and financial aid officers; and (iii) counseling services and tutorial and other necessary assistance to such persons while attending such institutions.

The centers will serve as recruiting and counseling pools to coordinate resources and staff efforts of institutions of higher education and of other institutions offering programs of postsecondary education, in admitting educationally disadvantaged persons. Grantees, if engaged in such activity prior to receipt of Federal funds, are required to maintain their prior level of effort. The Federal share of establishing and operating such centers is set at a maximum of 75 percent of the total program costs.

Applications from interested agencies and institutions were received in the Office of Education on May 29, and funding procedures are now in progress to award initial-year grants by June 30 1974.

The four programs described above comprise the Student Special Services programs administered by the Office of Education. The general purpose of the programs is to expand educational opportunities to achieve equalized educational opportunities, particularly for low-income Americans. Although the four programs share a common focus on low-income students, they deal with different levels of educational goals and needs. Talent Search seeks to encourage and assist students with financial and cultural needs to learn about educational career options and available financial aid resources to secure that educational future. Upward Bound directs its activities toward the students who are unaware of their academic potential, and who lack both the motivation and the academic and personal skills necessary to pursue successfully postsecondary education, seeking to correct specific deficiencies and to prepare these students for postsecondary enrollment.

The program of Special Services for Disadvantaged Students focuses on postsecondary students enrolled or accepted for enrollment in a variety of institutions and who are in need of remedial and supportive services to enable them to enter, re-enter and successfully sustain a program of postsecondary education.

The activities of an Education Opportunity Center are well-defined in the legislation. The characteristics of an effective center will include: (i) the identification of a specific geographic area, and (ii) the creation of an effective delivery system of program benefits and activities for the residents of that area. Measurements of a center's effectiveness will include the number of persons receiving counseling for take advantage of the educational benefits of the GI Bill to enrollment, as well as procedural activities associated with successful admissions applications. The centers have specific goals of improving the "college-going rate" of the residents of an identified area, and an improved retention rate for the students enrolled at postsecondary institutions within the immediate range of that area.

It is of some importance to add at this point that although the Statutes do not specifically authorize the Office of Education to fund projects for veterans, the Office of Education did receive a special appropriation in 1972 to develop Special Veterans Talent Search/Upward Bound projects to aid those veterans who have been unable to take advantage of the educational benefits of the GI Bill to enroll in postsecondary education by employing the Upward Bound technique toward this group of disadvantaged citizens.

While the Talent Search activity was directed toward "outreach"—to help veterans with the myriad questions posed by their educational and no-educational needs—several thousand veterans have been able to complete the Special Programs or receive the services of these programs and to enroll in postsecondary educational activity.

II. OPERATIONS OF THE STUDENT SPECIAL SERVICES PROGRAMS

A. *Funding of projects*

The Talent Search, Upward Bound and Special Services for Disadvantaged Students programs are administered under grant or contract agreements between the U.S. Commissioner of Education and participating agencies, origanizations and institutions of postsecondary education. Under the terms of these agreements, the grantees/contratcors plan, develop and carryout programs designed to identify qualified youths from low-income families, prepare them for a program of postsecondary education, and/or provide special services for such students who are pursuing programs of postsecondary education.

Until 1971, these three programs, which are sometimes referred to as the Trio programs, were administered from the central U.S. Office of Education. On January 1, 1972, the authority for the administration of the programs was delegated to the Regional Offices of Education, giving them responsibility for the evaluation of proposals, funding decisions, grant and contract negotiations, and the monitoring of funded projects.

Proposals are submitted annually to the regional offices. Each proposal is read by a panel of experts in the education of disadvantaged students, including two non-Federal readers and a number of the OE Regional Office program staff.

After reviewing these evaluations, the regional staff requests a third non-Federal evaluation if there is a wide divergence of opinion about a proposal. Those recommended for funding are approved by the Regional Commissioner of Education.

During the 1973-74 funding cycle, a multi-year approval system was implemented for these programs. This system is designed to allow applicants to project goals, objectives, work plans, and activities over a 3-year period. Continued funding for the full multi-year cycle is always contingent upon the availability of funds, a successful prior-year performance, and an administrative decision that continuation is in the best interest of the Government. Successful applicants under this system must reapply in each succeeding year as noncompeting continuation applicants.

Roughly 96.5 percent of the total program funds are allocated annually from the central office to the regional offices to support regular projects. About 3.5 percent of the program funds are retained by the central office to support demonstration and service projects which are national or inter-regional in scope. These projects, which are a mechanism for implementing innovative concepts for the education of the disadvantaged or providing national services, are funded and monitored by the central office in conjunction with regional personnel.

The funding history of the programs from their inception is attached as table 1 (Talent Search), table 2 (Upward Bound), and table 3 (Special Services for Disadvantaged Students).

Regulations including criteria for the Educational Opportunity Center projects were published in the Federal Register on April 29, 1974. A total of 180 proposals was received at the central office on May 29, 1974.

A panel of non-Federal experts in the education of the disadvantaged was invited to join with the Office of Education to evaluate these proposals for new program activity. Ten to 12 proposals will be recommended for funding as pilot projects during the first year of program operations. Congressional notifications of these projects will be made prior to June 30, 1974.

B. Management of projects

Projects are monitored to see that each is meeting its approved goals, objectives, work plans, and activities. Monitoring is accomplished through on-site visits by regional office personnel and professional site visitors, regional and State meetings, and workshops conducted by regional office staff, and regular reports to both the regional and central offices.

C. Reporting of projects

Because of the variations among the program goals, each of the programs has special reporting requirements in addition to common requirements for quarterly, mid-year, and annual reports covering progress in meeting project goals and objectives, disbursements, and property transactions.

Special reporting requirements are as follows:

Talent Search: Semiannual statistical reports covering background of clients, educational status, and project accomplishments. These are summary reports, although projects are required to maintain individual records.

Upward Bound: Reports covering individual student demographic data as they enter and leave the project. Periodic surveys attempting to track academic progress of individual students and to update records.

Special Services: Semi-annual statistical reports covering background of participants, educational status, project activities and student retention. These are summary reports, although projects are required to maintain individual records.

Educational Opportunity Centers: Quarterly statistical/narrative reports covering information on participants as well as tracking progress the project is making in attaining its objectives.

D. Demand for the programs

One available measure of known demand for the Student Special Services programs is the number of proposals received annually by the U.S. Office of Education. Tables 1, 2, and 3 contain this information by program so that one may compare the number received with the number funded.

The Office of Education is often asked to define the potential population to be served by these programs. It is difficult to arrive at a precise figure. The low-income population, 14- to 21-year-olds, according to the latest Census figures, is 3,984,000. We must add to this group an unknown number of additional students eligible for program services, including: (i) the physically disabled; (ii) those in "cultural need"; and (iii) the "over 21" group that will include high school and college dropouts as well as those who have never enrolled in postsecondary study programs.

The student population currently served by the Student Special Services Programs is 268,000 which represents less than 7 percent of the known eligible population.

III. THE EVALUATION OF THE PROGRAMS

The evaluation of the Student Special Programs is based on three general sources of information: (A) on-site evaluations of projects; (B) regular reports submitted by the projects and maintained in the management information system of the Office of Education; and (C) special studies contracted by the Office of Education or undertaken by other agencies. Some of the detailed accomplishments highlighted by the management information system are included in Table 4 through 10.

Highlights of the data accumulated to date indicate that:

1. Between 69 percent and 83 percent of the Special Programs clients and students are from families with incomes of less than $6,000 per year.

2. Except for clients in the Talent Search components of the Special Veterans projects, 77 to 83 percent of the persons served are from non-white minority populations.

3. Out of a combined total of 125,238 regular and special veterans Talent Search clients served in 1972–73, 95,600 individuals were placed in postsecondary schools, assisted in entering other training programs, returned to school, or prevented from dropping out.

4. Upward Bound has a creditable postsecondary enrollment record of 71 percent of those who completed the program.

5. The Special Services for Disadvantaged Students program, in addition to reaching its intended low-income population (69 percent of the students came from families with adjusted incomes of less than $6,000), reported that 90 percent of its students have remained in and/or successfully completed the program, 8 percent left for reasons beyond the control of the student or the project, and 2 percent left as academic or administrative dismissals.

6. Approximately 3,000 physically handicapped students were assisted in the Special Services for Disadvantaged Students Programs.

7. Talent Search, while it performs many additional education functions difficult to quantify, was successful to the extent that 57 percent of its regular clients and 61 percent of the veterans served by the program were placed in postsecondary institutions or accepted for enrollment in the 16972–73 program year.

Further program evaluation has been conducted through contractual arrangements or undertaken by government agencies. The Special Services for Disadvantaged Students program has recently been the object of a two-year study by the Educational Testing Service, Princeton, New Jersey. Although the final report has not yet been submitted to the Office of Education, the draft has been studied and used in the preparation of new program Regulations.

The ETS study indicates that the Special Services Program is a positive force in effecting institutional change to meet the needs of disadvantaged students on the campus. The study also suggests that individual student performance tends to be a function of the attitude of the institution toward students who lack skills that allow them to compete with their peers.

The report does offer several recommendations to the Office of Education:

First. Institutions that are funded must make absolutely certain that institutional objectives are compatible with the needs of the disadvantaged students;

Second. Institutional lines of authority must be specified to assure response to the needs and problems of disadvantaged students;

Third. A special and extraordinary effort must be made to insure that students are aware of the supportive services available to them through the program and through the institution.

Fourth. There must be realistic assignment of budgets to tasks and activities so that programs do not take on too many activities, or serve so many students that the program is vitiated.

Fifth. There is need for careful, thoughtful, and specific measurable program goals and objectives;

Sixth. Projects must deal more effectively in recognizing and meeting the needs of different ethnic and racial groups;

Seventh. Program evaluation and renewal must be based on students being able to reach a retention or performance rate that equals that of the nondisadvantaged student;

Eighth. Monitoring of programs must be given a higher priority; and

Ninth. The student eligibility requirements must be tightened as many students in the program were found not to need the academic portion of the program.

These recommendations are presently under consideration by the Office of Education.

Talent Search and Upward Bound Programs are now the subject of a 2-year study. The results of this study will be available in early 1975.

In reference to other governmental studies, the General Accounting Office has made an investigation of 14 Upward Bound projects located in three regions. The results of this study were made available to the Congress on March 7, 1974.

The GAO report offered many constructive suggestions to the Office of Education—suggestions that were overdue in many areas. The establishment of clear measurable objectives will be implemented in regulations which will soon be published. An improved management information system is presently being implemented. The system now includes an editing process which automatically identifies students who do not meet the risk and income criteria.

With respect to other issues raised in the GAO report, I should like direct the subcommittee's attention to the official response from the Office of Education, dated May 26.

At this point, Mr. Chairman, I would be pleased to respond to any questions you might have.

[Tables follow:]

TABLE 1.—TALENT SEARCH

	Fiscal year—							
	1966	1967	1968	1969	1970	1971 [1]	1972 [1]	1973 [1]
Funds requested (thousands)	$7,723	$10,907	$14,771	$18,500	$14,647	$11,881	$21,298	$17,834
Obligations (thousands)	$2,000	$2,492	[2] $3,884	$3,876	$5,000	$5,000	$6,000	$6,000
Proposals received	130	176	226	254	192	([3])	223	234
Projects funded	42	50	72	66	84	90	[4] 166	117
tudents served	[5] 50,000	[5] 62,500	[5] 97,500	[5] 95,900	[5] 125,000	125,000	125,000	[5] 125,400
Average cost—								
Per student	[5] 40	[5] $40	[5] $40	[5] $40	[5] $40	$40	$48	$48
Per project	$47,619	$49,840	$53,944	$58,727	$59,524	$55,556	$36,145	$51,282

[1] Program regionalized Jan. 1, 1972.

[2] Amount available $3,900,000 due to $100,000 savings requested by administration.

[3] Not available.

[4] 67 veterans projects counted in both Talent Search and Upward Bound this year only.

[5] Estimated. Limited staff prevented data collection prior to fiscal year 1971. Fiscal year 1973 data not available until program year closes June 30, 1974,

TABLE 2.—UPWARD BOUND

	1965	1966	1967	1968	1969	1970	1971 [1]	1972 [1]	1973 [1]
Funds requested (thousands)	([2])	([2])	([2])	([2])	([2])	$37,188	$50,000	$73,377	$49,227
Program funds [3] (thousands)	[4] $2,400	[4] $24,900	[4] $28,200	[4] $31,600	$30,600	$28,300	$28,500	[5] $33,600	$38,331
Proposals received	36	292	348	395	445	424	500	895	497
Projects funded	[4] 17	[4] 218	[4] 249	[4] 285	300	292	302	[6] 378	416
Students served	[4] 2,061	[4] 20,333	[4] 22,440	[4] 25,368	25,740	27,346	28,142	[7] 33,809	[7 8] 27,900
Average cost—									
Per project	$141,176	$114,220	$113,253	$110,877	$102,000	$96,917	$94,370	$88,888	$92,141
Per student	[4] $1,164	[4] $1,225	[4] $1,257	[4] $1,246	$1,189	$1,035	$1,013	$994	[8] $1,374

[1] Program regionalized Jan. 1, 1972.

[2] Not available.

[3] Excludes administrative funds.

[4] Prior to fiscal year 1969 program was under OEO auspices. Data on program funds, number of projects and students served secured from Greenleigh report.

[5] $1,400,000 to right to read.

[6] 67 veterans projects counted in both Upward Bound and Talent Search this year only.

[7] The 20 percent matching of Federal funds was eliminated by Public Law 92-318, June 23, 1972. Grants for fiscal year 1972 had already been negotiated. The increased cost per student served and reduced number of students reflects the implementation of full Federal funding.

[8] An additional 25,000 veterans will receive outreach and counseling services only. They are not included in the total students served by Upward Bound to avoid gross distortion of cost per student.

TABLE 3.—SPECIAL SERVICES

	1970	1971 [1]	1972 [1]	1973 [1]
Funds requested (thousands)	$90,000	$63,321	$40,123	$44,086
Obligations (thousands)	$10,000	$15,000	[2] $14,175	$22,998
Proposals received	424	([3])	420	485
Projects funded	121	190	208	322
Students served	30,000	51,500	62,400	[4] 100,000
Average cost—				
Per student	$333	$291	$227	[4] $230
Per project	$82,644	$78,947	$68,149	$71,422

[1] Program regionalized Jan. 1, 1972.

[2] $825,000 to right to read.

[3] Not available.

[4] Estimated. Program year closes June 30, 1974.

TABLE 4

[In percent]

Eligibility criteria family income	TS 1971-72	TS 1972-73	SS (new students only) 1971-72	SS (new students only) 1972-73	TS/UB vets, 1972-73
Eligibility criteria:					
Low family income	NA	73	83	75	61
Cult/geog. isolation	NA	14			3
Other	NA	12			35
Discretion of PD			13	11	
Physical disability			4	5	
None of these				9	
Not reported	NA	0	1	0	0
Family income (new students only):					
0 to $2,999	19	30	33	32	56
$3,000 to $5,999	29	39	42	37	23
$6,000 to $7,499	6	15	8	14	10
$7,500 to $8,999	3	7	5	7	5
$9,000 or more	2	6	5	7	5
Not reported	41	2	7	4	1

TABLE 5

[In percent]

Ethno-racial background	TS 1971-72	TS 1972-73	SS 1971-72	SS 1972-73	TS/UB vets 1972-73
Black	43	51	55	49	44
American Indian	9	11	5	7	2
Oriental American	1	1	2	1	0
Spanish descent:					
Mexican American	14	15	14	16	8
Puerto Rican	4	4	4	5	2
Other	1	1	1	2	0
white (other than Spanish descent)	17	18	16	17	43
Other	1	1	2	2	1
Not reported	11	0	0	2	0

TABLE 6

Program accomplishments	TS 1971-72 Number	TS 1971-72 Percent	TS 1972-73 Number	TS 1972-73 Percent	Vets, 1972-73 Number	Vets, 1972-73 Percent
Postsecondary placement:						
Enrolled in college	28,638	23	30,997	32	9,670	43
Accepted, but not yet enrolled			22,313		3,650	16
Placed in action, etc.			1,736	2	288	1
Placed in Armed Forces training programs			442	0	27	0
Drop-out prevention and return:						
Returned to elementary/secondary school	1,684	1	1,161	1	213	1
Returned to postsecondary school			2,970	3	1,878	8
Placed in high school equivalent or GED program	4,530	4	3,857	4	3,480	15
Placed in adult basic education programs			1,592	2	356	2
Prevented from dropping out (all levels)			8,725	9	2,245	10

TABLE 7.—UPWARD BOUND

Output measures	Fiscal year—								
	1965 [1]	1966	1967	1968	1969	1970	1971	1972	1973
Percent distribution of students aided by gross family income category	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	(1)
0 to $2,999	(42.5)	(38.0)	(39.0)	(35.8)	(33.7)	(30.8)	(31.0)	(31.8)	
$3,000 to $5,999	(47.5)	(54.8)	(53.6)	(55.6)	(56.6)	(58.4)	(58.5)	(52.0)	
$6,000 to $7,499	(7.5)	(5.6)	(5.7)	(6.6)	(7.5)	(8.0)	(8.0)	(11.4)	
$7,500 to $8,999	(0)	(1.1)	(1.2)	(1.3)	(1.5)	(1.9)	(1.8)	(3.2)	
$9,000 or more	(2.5)	(.5)	(.5)	(.7)	(.7)	(0.9)	(0.7)	(1.6)	

[1] Data not yet available.

TABLE 8.—UPWARD BOUND

Output measures	Fiscal year—								
	1965	1966	1967	1968	1969	1970	1971	1972	1973
Percent distribution of students aided by ethnoracial category	NA	100.0	100.0	100.0	100.0	100.0	100.0	100.0	(1)
American Negro		(52.0)	(51.6)	(54.4)	(54.5)	(55.6)	(51.5)	(56.8)	
American Indian		(4.1)	(4.1)	(4.5)	(6.0)	([illegible].3)	(7.9)	(5.5)	
Oriental American		(2)	(.9)	(.7)	(.7)	(0.6)	(0.9)	(.8)	
Spanish-surnamed American		(7.4)	(9.8)	(9.3)	(9.4)	(9.0)	(10.8)	(9.7)	
White American		(33.1)	(31.7)	(29.6)	(28.1)	(25.7)	(28.4)	(23.0)	
Other		[2] (3.4)	(1.9)	(1.5)	(1.3)	(0.9)	(0.5)	(4.2)	

[1] Data not yet available.

[2] In 1966, Oriental Americans were included in the 3.4 percent "Other" category.

TABLE 9

National Upward Bound postsecondary statistics 1965–73 [1]

1.	Number of former Upward Bound students who have graduated from high school	57,416
2.	Number of former students who planned to enroll at a 2- or 4-year college	40,577
2a.	Percentage of high school graduates who planned college enrollment	71
3.	Number of former students who matriculated at a 2- or 4-year college	37,376
3a.	Percentage of high school graduates who matriculated into college	65
3b.	Percentage of students who planned enrollment who matriculated	92
4.	Number of students who planned enrollment at a postsecondary institution other than a 2- or 4-year college	3,160
4a.	Percentage of high school graduates who planned other postsecondary enrollment	6
5.	Number of former students who matriculated at their own host institution	16,027
6.	Number of former students who matriculated at an Upward Bound host institution other than their own	7,263
7.	Number of students who matriculated at institution which does not currently host an Upward Bound project	14,086
8.	Number of former students who matriculated at a 2- or 4-year college	37,376
9.	Number of students last reported as enrolled in college	18,800
10.	Number of former students reported graduates of a 2-year college	391
11.	Number of former students reported holding a baccalaureate degree	1,874
12.	Number of former students reported attending graduate or professional schools	177
13.	Percentage of college matriculants who were either reported still enrolled or graduated from college	57

[1] The postsecondary enrollment data cited above does not reflect information on former Upward Bound students who decided to obtain a postsecondary education sometime after they left the program. Since the Office of Education does not maintain contact with each individual student after he leaves the program. Information on students who transfer colleges or who drop out of school temporarily is also lost.

TABLE 10.—SPECIAL SERVICES, RETENTION IN PROGRAM

Reasons for leaving program	1971-72		1972-73	
	Number of students	Percent	Number of students	Percent
Satisfactory academic progress	5,262	10.9	6,944	11.5
Transferred other college or university	885	1.8	1,288	2.1
Graduated	927	1.9	2,147	3.5
Total		14.6		17.0
Other reasons	6,562	13.7	6,383	10.6
Total leaving program	13,636	28.5	16,762	27.8

TABLE 11

Dependent 18 to 24 year olds not enrolled in college, not high school graduates by family income, 1971

[Percent of age group not enrolled, not high school graduate]

Family income:	
All income	14
0 to $2,999	39
$3,000 to $4,999	32
$5,000 to $7,499	18
$7,500 to $9,999	13
$10,000 to $14,999	7
$15,000 and over	3

Dependent 18 to 24 year olds attending college by family income, 1971

[Percent of age group in college]

Family income:	
All income	38
0 to $2,999	15
$3,000 to $4,999	21
$5,000 to $7,499	28
$7,500 to $9,999	34
$10,000 to $14,999	42
$15,000 and over	58

Source: Both tables calculated from U.S. Bureau of the Census, *Current Population Reports* (1971), series P-20, No. 241, pp. 40-41.

TABLE 12.—SPECIAL PROGRAMS TOTAL, FISCAL YEAR 1973 FUNDING

[Program year 1973-74]

	Requested	Funded	Number of projects	Average award	Number of students[1]
California	$15,109,461	$5,318,610	65	(2)	23,345
Florida	2,137,907	1,965,423	25	(2)	6,718
Illinois	5,926,689	2,360,629	23	(2)	11,540
Indiana	1,680,816	1,055,793	12	(2)	3,243
Michigan	3,771,494	1,979,213	23	(2)	6,237
New York	5,427,585	5,087,048	49	(2)	17,126
North Carolina	2,930,260	2,280,676	29	(2)	7,444
Oregon	1,483,108	698,839	13	(2)	2,855
Pennsylvania	4,006,520	2,224,726	30	(2)	6,559
Puerto Rico	1,169,731	1,091,691	12	(2)	5,213

[1] Aggregate of estimates for each of the programs.
[2] See average award for each of the programs.

TABLE 13.—TALENT SEARCH, FISCAL YEAR 1973 FUNDING

[Program year 1973–74]

	Requested	Funded	Number of projects	Average award	Number of students[1]
California	$3,165,862	$613,421	11	55,766	12,286
Florida	165,959	101,475	2	50,738	2,030
Illinois	752,382	351,865	4	87,966	7,037
Indiana	66,649	64,340	1	64,340	1,287
Michigan	306,787	105,000	2	52,500	2,100
New York	460,260	376,907	8	47,113	7,538
North Carolina	130,805	120,500	2	60,250	2,410
Oregon	287,399	77,943	3	25,981	1,559
Pennsylvania	447,354	163,000	3	54,333	3,260
Puerto Rico	[2] 110,000	110,000	1	110,000	2,200

[1] Estimated at $50 per student.
[2] Request amount was funded.

TABLE 14.—SPECIAL SERVICES, FISCAL YEAR 1973 FUNDING

[Program year 1973–74]

	Requested	Funded	Number of projects	Average award	Number of students[1]
California	$7,806,061	$2,080,977	24	86,707	9,167
Florida	905,683	[2] 905,683	14	64,691	3,990
Illinois	3,420,952	826,958	8	104,370	3,643
Indiana	806,743	334,000	4	83,500	1,471
Michigan	2,096,611	754,000	9	83,778	3,322
New York	1,695,162	1,675,102	16	103,694	7,379
North Carolina	1,308,530	941,326	12	78,444	4,147
Oregon	593,956	229,423	5	45,884	1,011
Pennsylvania	1,473,389	489,000	9	54,333	2,154
Puerto Rico	682,508	625,000	7	89,286	2,753

[1] Estimated at $227 per student.
[2] Requested amount was funded.

TABLE 15.—UPWARD BOUND FISCAL YEAR 1973 FUNDING

[Program year 1973–74]

	Requested	Funded	Number of projects	Average award	Number of students[1]
California	$4,137,538	$2,624,212	30	87,474	1,910
Florida	1,066,265	958,265	9	106,474	698
Illinois	1,753,355	1,181,806	11	107,437	[illegible]
Indiana	807,424	667,453	7	95,350	48[illegible]
Michigan	1,368,096	1,120,213	12	93,351	81[illegible]
New York	3,272,163	3,035,039	25	121,402	2,209
North Carolina	1,490,925	1,218,850	15	81,257	837
Oregon	601,753	391,473	5	78,295	285
Pennsylvania	2,085,777	1,572,726	18	87,374	1,145
Puerto Rico	377,223	356,691	4	89,173	250

[1] Estimated at $1,374 per [illegible]

Mr. O'Hara. Thank you very much, Dr. Spearman.

Dr. Spearman, does one of your tables here have to do with the funding history of these programs?

Dr. Spearman. Tables 1, 2, and 3 show this Mr. Chairman. In table 1, the first line represents the amount of funds requested by institutions annually from 1966 through 1973. For example, in 1973, the institutional or agency request for Federal Funds was $17,834,000.

The obligations of the Federal appropriation on that line was $6 million. We received 234 proposals. We were able to fund, from this, 117 proposals. The number of students served, and that is a total number for all 117 projects, represents 125,400, at an average cost of $48 per student, and an average cost per project of $51,282.

That information is pretty much duplicated in tables 2 and 3 with respect to the Upward Bound program and the Special Services program. For example, in 1973, in Upward Bound, we received requests in the amount of $49 million. The appropriation was $38,331 million.

We received 497 proposals, funded 416, serving 27,900 students at an average cost of $1,374 per student, at an average project cost of $92,141.

In the Special Services Program, referring only to 1973, there was a request for $44 million. We obligated $22,998,000. I cannot account for the loss of that $2 million. The number of proposals received, 485. We funded 322 to serve 100,000 students at an average cost per student of $230, and an average project cost of $71,422.

Mr. O'Hara. What is the funding situation for 1974?

Dr. Spearman. The 1974 appropriation is precisely the same, with the addition of $3 million to implement the new Educational Opportunities Center program. So we are talking about $70,331 million for all four programs.

Mr. O'Hara. The current budget requests are——

Dr. Spearman. That is also the 1975 budget request.

Mr. O'Hara. One of your programs involves getting out information. Your Educational Opportunities Centers involve disseminating information with respect to financial and academic assistance available for persons residing in such areas desiring to pursue a program of postsecondary education.

How many of these centers do you now have?

Dr. Spearman. None at the present time. One hundred eighty proposals were received on May 29, and evaluated between June 2 and 5. We plan to have the program operational on July 1 by funding 12 Centers throughout the country. There will be a center in each of the regions of the office of Education.

Mr. O'Hara. When you talk about areas with major concentrations of low income populations, what size areas are you talking about: metropolitan areas, cities, neighborhoods? What order of magnitude are we talking about? Are they counties or parts of cities?

Dr. Spearman. We are talking about parts of cities, rural and urban areas that embrace a significant portion of low income youth.

Mr. O'Hara. In other words, in the D.C. area you might have such a center in Southeast?

Dr. Spearman. Correct.

Mr. O'Hara. And then if there is a kid in Northwest who wanted information, what would happen then?

Dr. Spearman. Hopefully, he would go to the center in Southeast.

Mr. O'Hara. But it is not designed to serve him.

Dr. Spearman. It would be very difficult, with the size of a center and the amount of funds allocated to one center, to be able to effectively cover an entire area the size of the District, but we would like to be able to make the center's activities known to all of the citizens in the District.

Dr. Phillips. Mr. Chairman, I might interject an additional comment here. We are in the first year and these first projects are very much in the nature of pilot projects to see how this concept works out, and we will be very carefully following and tracking it to see how it does do: does it tend to be restrictive in the sense that the Center's geographic location limits the clientele served, or can one, in a major concentration of low-income population, serve a larger geographic area.

That is one of the criteria we use in evaluating the proposals.

Mr. O'Hara. I have been looking at the accomplishments of the programs and I am wondering. I see no reference in here anywhere on highlights of data accumulated to date that has to do with student special programs.

I see no reference in here anywhere to control groups. Have you attempted—it may be indeed that 90 percent of the students who have been assisted in special services for disadvantaged programs have remained in and/or successfully completed the program; 95,600 placed in postsecondary schools, assisted in entering other programs, returned to school, or prevented from dropping out.

Talent Search, 57 percent of its regular clients and 61 percent of the veterans served by the program were placed or accepted for enrollment in postsecondary institutions. I am wondering to what extent that would exceed a control group from similar backgrounds who weren't receiving assistance.

In other words, I think the best measure of the effectiveness of the programs is to what extent they are assisting people in achieving results that would not otherwise be achieved.

Would there be considerable numbers doing these things if there were no——

Dr. Phillips. Mr. Chairman, I would like to ask Dr. Jones to respond to your question.

Dr. Jones. The Research Triangle Institute of North Carolina is undertaking a control study of the Upward Bound program as a part of an overall study of both Talent Search and Upward Bound under OE contract. The design and information will become available with the final report due in late 1975.

It is presently impossible to design a control study for Talent Search. Descriptive information about the clients in any single project is not available for control purposes. The R.T.I. study will describe the clients; once this is completed, it may be possible to design a control study.

The reasons for this are understandable. The average Talent Search project works with three distinct groups of clients: Secondary and college dropouts in a significant age span; graduating seniors in need of immediate assistance in gaining admission to a postsecondary institution together with assistance in obtaining financial aid; and students below the 12th grade who need effective career counseling to make intelligent career decisions, particularly counseling that seeks to advise students about the necessary prerequisites for an adequate secondary school background for postsecondary education. Talent Search also serves students of cultural needs. Until these groups are described, a control study is extraordinarily difficult if not virtually impossible to design from the "matching" needs of an adequately constructed control group.

Individual programs have conducted internal experiments with control groups. Although we have never formalized these project studies, there is solid evidence that projects are achieving their objective of postsecondary placement. Those in control groups do not proceed into post-secondary education unless there is an effective counseling program available in high schools, or students have access to a Talent Search-type operation.

The universal reports we receive from project directors indicates that high school counselors, with unusually heavy student loads, often in excess of 500 students, cannot deal with individualized needs of students, particularly those from disadvantaged backgrounds. Counselors tend to prefer to work with advantaged students and with achievers, project directors believe. There is also a suspicion that counselors are more than ever before concerned with attendance and not with future educational planning. In other words, counselors are concerned with dropout prevention and not with career educational options.

The Upward Bound program did fund a highly significant control experiment in 1968–69 before the creation of the Special Services for Disadvantaged Students program in the Higher Education Amendments of 1968. The University of New Orleans—then Louisiana State University at New Orleans—experienced a severe problem with entering freshmen from disadvantaged backgrounds who had double deficiencies in both English and mathematics. Admission to a State institution of higher education in Louisiana required only a high school diploma and tuition.

Ninety percent of students with double deficiencies who entered LSUNO failed at the end of the first semester. In a decade, less than 1 percent had graduated from that institution.

Computers perfectly matched two groups of students for the control. Forty-two students were placed in a special Upward Bound program of general studies for one semester; the control group of 42 entered regular freshman classes.

Our last report on these students, March 1973, is significant:

"*Retention Rate of the 1969 General Studies Upward Bound Program:*—35 percent of the 1969 general studies program (a small group of double remedial students who were given tutoring and academic supportive services) are still enrolled in higher education—28 percent at LSUNO, 7 percent at other colleges.

Of the control group 5 percent are still enrolled at LSUNO. None are enrolled at other institutions.

The control group was matched carefully with the Upward Bound group not only as ACT scores in English, mathematics, and comprehension scores, but as to high schools, neighborhoods, size of family, and disadvantaged status by income.

The above statistics show that the Upward Bound program improved the chances of remaining in college for the poorly prepared disadvantaged student from 5 out of 100 to 35 out of 100."

Dr. Phillips. We do have some independent study that Mr. Spearman has been reviewing. Perhaps he can relate some materials from that study to the question.

Dr. Spearman. When we examined, in a study on socioeconomic rates in dropouts and retention rates among individuals who go to college, we examined a study on the probability of young people, men going into postsecondary education from the lowest socioeconomic status, that is, from incomes of zero to $2,500. The probability is about six-hundredths percent. For women it is about seven-hundredths percent. When we move that up to the upper socioeconomic level, the probability of men pursuing postsecondary education, or avoiding dropout, is about 48 percent, as compared to 34 percent for females.

So, in essence, our data, while lacking the precision of refined control techniques, indicates that the rate of college attendance for young people whose income is less than $6,000 exceeds to some extent the predicted rate. In round figures, this would be approximately 15 percent for individuals whose income is less than $6,000 per year as compared with 48 percent for those whose family income exceeds $10,000.

So, there is something like a difference of 3½ times the opportunity for postsecondary education for those individuals who are from the upper socio-economic scale.

Mr. O'Hara. My point is I think there are a lot of Members of Congress that are not completely convinced that the program is achieving results different than those that would be achieved without it.

We can see, for instance, by looking at some of the statistics in the report of the Commission on the Funding of Postsecondary Education that there has been an increase in the number of students from the lowest income groups who are continuing on in postsecondary education.

I am not sure but what people possessing the characteristics of those that you go out and identify and assist in some area where your program doesn't operate might not be going on in the same percentages.

Dr. Phillips. You are really questioning the marginal utility of the program. In other words, the program, let's say the national figure is something like 15 percent of those under $3,000 income would go on to college. That is the census data.

You are questioning does the availability of something like Talent Search raise that rate to 20 or 25 percent, or does it simply mean that the same percentages go on regardless of whether they have access to this program.

Mr. O'Hara. That is right.

Dr. Phillips. I think the only answer we can give you on that right now is we do have this RTI study underway which is a fairly comprehensive 2-year study. It does contain within it a plan whereby we can test the postsecondary participation rates of the people served by the project as opposed to those that are not served by the projects, and we may be able to give you some data early in 1975 on that question.

Mr. O'Hara. Controlling the thing in such a way as to have similar population in each group, that is the material that I don't find here. I have that same trouble with the levels of the Great Lakes.

Right now a lot of my constituents are being flooded out and they say, "O'Hara, what have you done? You haven't accomplished anything because we are still under water." I try to explain to them that the water would be 4 to 5 inches higher than it is today had it not been for my efforts, but when you are under water they think 4 or 5 inches isn't all that important.

Maybe our efforts are like O'Hara's efforts in the Great Lakes. I am not having much of an impact, you see. Maybe the levels of the lakes are controlled by precipitation, runoff, days of sunshine and a lot of other things and the mere puny efforts we make aren't an effect in the outcome.

Maybe that is the same situation here. We are dealing with all kinds of cultural factors and causing people to change their living patterns. Maybe we aren't making much of a difference. That is what I want to try to find out.

I would like to have your response to the GAO study submitted for the record, if you could, on problems of the Upward Bound program.

Dr. PHILLIPS. Mr. Chairman, I believe our first response is contained in the back section of the volume you have in your hand.

Mr. O'HARA. Do you have a further response?

Dr. PHILLIPS. There is a further response dated May 26, which goes into greater detail and we will make copies of that available to you. We did an initial response and then we studied further and did a followup.

[The document referred to follows:]

EFFECTIVENESS OF THE UPWARD BOUND PROGRAM IN PREPARING DISADVANTAGED STUDENTS FOR POSTSECONDARY EDUCATION

In the preliminary response to the study, the Department concurred that a need exists to strengthen many aspects of the administration of the Upward Bound Program. We are working to synchronize all aspects of the tasks involved to accomplish the improvements in time for Fiscal Year 1975 funding.

Basic operational procedures to assure project compliance with grant terms and conditions and with participants' economic eligibility can be established fairly quickly. The more time-demanding recommendations concerning such things as need analysis, achievement test and measurement of motivation will require considerably more attention and will not be completed as rapidly. In short, several improvements can be effected for this year's funding. Others which involve changes to the basic structure of the program and a systematic restructuring will progress more slowly and will require specialized staff.

Within the frame work of a fourteen-month work plan, the Office of Education is working to effect operation of the basic management principles and practices recommended in this study. The plan includes development of a statement of goals and objectives, mission statements, descriptions of the tasks required to implement the other recommendations and milestones establishing dates for completion of the various tasks.

The Department's updated comments to GAO's recommendations follow:

RECOMMENDATION NO. 1

GAO recommends

Establish clear, measurable objectives for the Upward Bound Program and periodic milestones to measure the effectiveness of the program in accomplishing the objectives as required by HEW's Operational Planning System. Also, develop guidelines requiring that the projects establish similar objectives.

Department comments

The Office of Education is preparing a policy statement designed to clarify the intervention strategy, general purpose and specific objectives of the Upward Bound Program. This statement serves as the basic guide for directing implementation of the other recommendations and for general operation of the program. The contents of this statement are to be translated into guidelines through which we will require projects to establish similar objectives.

RECOMMENDATION NO. 2

GAO recommends

Develop guidelines requiring projects to (1) perform and document comprehensive need assessment on all students, including their motivation levels, (2) design a curriculum to meet the needs identified, and (3) periodically measure the progress made in meeting these needs. The guidelines should also include additional guidance to assist the projects in accomplishing these three requirements.

Department comments

Points one, two and three of this recommendation have been written into draft regulations which are now being reviewed by OE's Office of General Counsel. They will be published well in advance of the Fiscal Year 1975 funding activity. Guidelines to assist projects in accomplishing these three requirements can be be done by educational specialists who have had recent and direct education and experience in working to improve students' educational abilities. Such individuals could make valuable contributions to national and regional OE staff capabilities to provide training for projects. OE is committed to acquiring the services of specialists to the maximum extent which available resources permit.

RECOMMENDATION NO. 3

GAO recommends

Improve the Upward Bound Management Information System so program managers are provided with the data needed in developing, planning and evaluating the Upward Bound Program. The system should provide program managers the data needed to (1) assess the specific educational needs of students, (2) identify the major problems that must be dealt with, (3) devise specific strategy for overcoming these problems, (4) implement an education program responsive to students' needs, (5) measure progress made toward meeting stated goals, and (6) assess the effectiveness of the program and each project.

Department comments

The study calls for a radical change in evaluation strategies for the Upward Bound program. Since the program's inception, evaluation has been based primarily on students' entrance and retention in college. The study suggests that the soundest grounds for evaluation is the measurement of growth which students experience from their participation in Upward Bound. This has benefits in terms of costs because the program evaluation can take place while individual projects still have direct access to the students as opposed to trying to track them after they have left the project. At the same time, it would appear that the Office of Education will become much more deeply involved in curriculum planning and implementation which requires resources for acquiring the services of specialists. In the past, we have relied upon the expertise of Upward Bound grantees for this aspect of program development.

Preliminary considerations of this recommendation indicate that these actions are required:

1. Determine the skills and motivation necessary for success, not only in a traditional four-year collegiate curriculum, but in the broad spectrum of postsecondary education as it is presently described in legislation.

2. Translate into measurable learning activities those skills and motivations which will serve to remedy the specific deficiencies that individual need analysis indicates are present.

As discussed in our response to a draft of this report, we let a contract to determine the essential information needs for effective management of the three (Trio) programs at all levels—project, regional and national. Once adequate data has been developed, the Office of Education will develop an Objective and Operating Plan for implementing the intent of this recommendation.

RECOMMENDATION NO. 4

GAO recommends

Strengthen the monitoring program to ensure that all projects operate in accordance with national intent and that the stated objectives of the projects are realistic and are being accomplished within the expected time frame.

Department comments

The outcomes of recommendations one, two and three will have a noticeable effect on the strength of the monitoring program, especially in terms of insuring that projects are operating in accordance with national intent. In the meantime, each regional office is making efforts to strengthen their monitoring program by implementing a management-by-objective system at the project level. Grant terms and conditions will require that each project (1) analyze the target population, (2) clearly state project objectives, (3) perform comprehensive need assessment for each student, (4) develop project work programs based upon individual student needs, (5) develop implementation plans for each objective, (6) perform self-evaluation of project work programs and (7) make periodic review of fiscal and progress reports.

As the Office of Education requirements of projects become more precise and standardized, the time and expertise required for project monitoring increases. Present staff strength in regional offices may have to be supplemented to insure that each project is adequately monitored. Ways in which some of the monitoring activity can be done through project reports are being considered as we begin to plan for changing the management information system.

RECOMMENDATION NO. 5

GAO recommends

Develop guidelines requiring regional offices to take steps to ensure that projects select students in accordance with the selection guidelines and document the basis used.

Department comments

We concur that such guidelines are needed, and appropriate language has been incorporated in the program regulations.

GAO recommends

Provide projects with guidelines defining an academic risk student in terms of achievement measures such as standardized achievement tests and grade point averages.

Department comments

While we agree with the need for a more precise definition of the term "academic risk," we would hesitate to limit its definition to ". . . terms of achievement measures such as standardized achievement tests and grade point averages." We believe that these kinds of criteria cannot adequately identify the type of student that Upward Bound is intended to help. For some time, the Office of Education has been considering how to best define an academic risk student for the purposes of deciding who would benefit more from participation in the Upward Bound Program, with the preciseness needed for uniform application nationwide. This matter will continue to receive careful attention particularly in discussions with experts in compensatory education, until it is resolved.

GAO recommends

Include an editing process in its computer program which would automatically identify students who do not meet academic risk and income criteria, so regional officals can take more timely corrective action.

Department comments

We concur. With respect to academic risks, we will include appropriate checks when the criteria mentioned above have been developed. With respect to income criteria, such steps have already been taken. In June 1972, the Upward Bound information system identified the problem of students not meeting income guidelines and the Regional Directors of Postsecondary Education were directed to take corrective action. Additionally, in April 1973, the Upward Bound information system implemented a procedure to identify individuals reported over income guidelines. As a result of these efforts, the number of students over poverty guidelines has been reduced from 14% as reported in 1972 to the point that only 4% of current regular Upward Bound students exceed eligibility criteria.

Mr. O'Hara. In their study they did an analysis. It is their appendix 1, an analysis of the association between program exposure and college enrollment and college retention.

In effect, they find they (a) can't figure out how effective the program has been in achieving its goals of equipping the students with academic skills and motivations necessary, and they indicate that the retention rates were overstated and really, that they aren't terribly impressive.

I know you have studied this. I would like to have your comment on it.

Dr. Spearman. The GAO report focused only on 14 institutions and three regional offices. I think it is important, Mr. Chairman, to point out that we are dealing with a shift in the objectives. We are caught in a period where there is a shift in the objectives of the program in 1974, which are slightly different than those objectives established in 1966 at the program's inception.

In 1966, when the program was funded in the Office of Economic Opportunity, the clear objective of the Upward Bound project director was to assist young people in pursuing college, in attending college.

In 1972–73, we began to shift that emphasis from colleges and universities to institutions of postsecondary education so that a broader array of options would be provided for young people. Project directors worked on the assumption that entry into the project, correction of deficiencies at the high school level, and placement into college constituted the end of the tracking process. We are totally dependent on the mercy of registrars and admissions personnel to provide information regarding the success and continuation of our former students during the 2- or 4-year period in which they are enrolled in institutions of higher education. Sufficient funds have never been available to track our former students through college by any other mechanism.

We see this as a real challenge and do not object to initiating a tracking procedure for this. There are two issues we are trying to resolve with GAO in this whole matter. One is, do you track through summary information which is considerably less expensive, or do you track it longitudinally, which can run an estimated $1 million to create a system to do this, or greater than that amount, because you are dealing with an annual rate of 27,000 young people who are attending more than 1,400 institutions of postsecondary education?

And so, the tracking procedure for determining the capability of the successes of young people over a 9-month proprietary school, or 2-year junior or community college, or 4-year college becomes an extremely difficult process.

We are aware of the difficulties and we are now engaged in discussions attempting to resolve how best to define "the measures of success." Do we use rate of attendance or do we use completion of course of study? There is some merit in both positions when you are dealing with students who have been denied an opportunity to have some kind of protracted view of a new world of postsecondary education.

I think we have to turn the corner in this matter. I would like to extend that just a little bit. We are developing an interim strategy to look at these programs very carefully as they affect the 1970's and 1980's.

We have been scheduled for a program review with the Office of Management and Budget on July 2. The Office of Education has also established a task force to develop an integrated policy statement for Talent Search, Upward Bound, Special Services for Disadvantaged Students, and the Educational Opportunity Center programs, to assist the Office of Education in the delineation and articulation of goals and objectives for these student support programs. In addition, we are also developing plans for a national work conference, including representatives, hopefully, from your staff, HEW and OMB to work with us and with individuals from selected institutions in the country, to explore a national strategy for programs for the disadvantaged in postsecondary education for the 1970's and 1980's. When we return before your committee, we will be pleased to share with you our best thinking about a national strategy for the next decade instead of continuing to rely upon a strategy developed for the 1960's.

So, Mr. Chairman, we are aware of the discrepancies in our system and what GAO found in the 14 Upward Bound projects it visited. We are taking advantage of this report, and our response to it, to open up the whole question of adequacy for the next decade. In this way, we can correct both short- and long-range goals and objectives.

Mr. O'HARA. I am very encouraged at the course of action you have outlined here. I think that is excellent, because I do think there exists a great need to really give a thorough evaluation to the programs and to the different aspects of the programs so we can sort out and find out just which are the most effective ways of providing assistance to the target groups these programs are aimed at.

There is no sense in our spending money on one method of providing assistance if we can determine that another method is much more effective and we could get more people more effectively for the same amount of money.

I am really very anxious to see a hard evaluation done. I would like to work with you in putting together plans for an evaluation and hope to get the necessary money to do that necessary evaluation because some of it will be fairly expensive.

It is going to involve having to follow students. It is much the same sort of problem, of course, as with Job Corps and you know the Job Corps program suffered greatly from not being able to come up and say, "We followed these people and here is what we found," and you have a control group and, "Here is what we found."

With the kind of data we had, which wasn't very good, you couldn't demonstrate the Job Corps kids were doing any better than the non-Job Corps, so I want to make sure we have some effective evaluation and that we are doing the right thing.

Mr. Dellenback had to leave momentarily for another committee.

Mr. O'HARA. Thank you very much. We will be talking to you again. We were hoping he would be back in time to question you because he did have some questions. I don't imagine this is the last time you are going to be here.

Dr. SPEARMAN. I hardly think so.

Mr. O'HARA. Thank you very much. We will be talking to you again.

Our next witness will be Miles Mark Fisher IV, who is currently serving as an officer of the National Association for Equal Opportunity in Higher Education, and who has had experience with the Upward Bound program while on the staff of Norfolk State College.

Mr. Fisher, we would very much like to hear from you.

STATEMENT OF MILES MARK FISHER IV, EXECUTIVE SECRETARY, NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY IN HIGHER EDUCATION

Mr. FISHER. Mr. Chairman, and members of the Special Subcommittee on Education, I am Miles Mark Fisher IV, executive secretary of the National Association for Equal Opportunity in Higher Education.

I wish to thank you for the opportunity to present testimony before this committee and command you for setting aside time to consider Special Programs for Students from Disadvantaged Backgrounds known as the "Trio program" including educational talent search, upward bound program, and special services for disadvantaged students in college.

These programs are consistent with Congress' Statement of National Educational Policy that "reaffirms as a matter of highest priority the Nation's goal of equal educational opportunity in that every citizen is entitled to an education to meet his or her full potential without financial barriers and limited only by the desire to learn and ability to absorb such an education. Our Nation's economic, political and social security demands no less."

The Commission on Financing Postsecondary Education in the United States in its concern with education beyond the high school level dealt with problems of student access, choice, opportunity and achievement, which point to some of the underlying assumptions of these programs.

These programs have made a significant impact on the lives of thousands of young people in this country, many of whom would never have been on a college campus or seen the inside of a building had it not been for the opportunity that these programs have provided for these youth.

Some students went on to college, while others did not go to college. However, because of this opportunity, their lives will never be the same again.

Some institutions accepted the students from their own programs while others did not accept certain students from their own programs. For most students, their aspirations and motivations have been extended beyond recall.

Today, we are confronted with some of the most complex educational problems that this Nation has ever faced.

It appears that the primary and secondary levels of education are worse now than they were in 1954. The hostility that exists along with the problems of urban living have compounded the situation.

The inequities of the system fail to address the standards of exclusion. Qualifications are set to the disadvantage of certain segments of the population. To continue this concept is to exclude disadvantaged people from higher education.

Present goals can be reached by realizing that something has to be done to compensate for the disablement of the disadvantaged by this system.

The Upward Bound program is probably more needed now than in the past. It hopefully can pick up "inner city" students and generate skills and motivation. Thousands of students in our large cities have been mangled and crippled intellectually because of the nature of the educational environment.

Alternative ways of relating to these students must continue to be explored lest we literally consign generations of students to nonexisting positions and welfare roles within the body politic of our society.

To predicate for the postsecondary experience has not been adequately addressed when students continue to move through the system who cannot read, write, and add at the secondary level.

The Talent Search program is also greatly needed at this time. This program should be amended to include the search for the new "pushout" who is being sent away from our schools for various and sundry reasons in some instances never to return.

Much potential leadership is being lost in this situation. College dropouts who are smartening from unsuccessful ventures in an alien environment might also be reclaimed and given a second chance.

The Special Services programs for disadvantaged students in colleges must continue supporting the Upward Bound and Talent Search thrust in colleges. Increased student support programs do not preclude the need for quality programs at the level where they would do the most good.

It will take various approaches to tackle the problems of a diverse group of people as we have in this country. What works will depend in many instances upon who is in charge of the works.

As no programs are without their problems, we must be careful not to assume that the consolidation and elimination of programs is the panacea for existing programs.

Intangible measures defy assessing in these types of programs because the results in many instances come to fruition in the future. What is caught is sometimes more important than what is taught.

Additional observations on these programs are as follows:

1. That these programs should be expanded to include more of the needy students who would qualify and to keep abreast of the broadened base of student assistance eligibles.
2. That regionalization of programs may work to the detriment of large numbers of students in rural and outlying areas of the south as well as large numbers of students in the large urban areas.
3. That a commitment should be indicated by the institutions having these programs to accept their own program product as opposed to preparing them to send them somewhere else.

The special programs for students from disadvantaged backgrounds have as their major thrust the preparation and support of students in their quest for the postsecondary experience.

These programs are capable of continued expansion. Maintenance of the status quo in funding means deficits in purchasing power and services.

In these programs we will never know the hope that has been generated in the lives of students, the cycles of poverty that have been broken, and the lifting of families to new levels of existence.

These programs should be continued in the days ahead, refined in their effectiveness, and offered as a bridge over troubled waters to the thousands of qualifying youth in this country.

Before I conclude my remarks I would like to call your attention to an institutional survey which I am in the process of doing of the historically black colleges and universities of the Nation, where I asked five questions of each institution concerning the "trio" programs.

I will give you an example of one of the responses on the survey that I hope to complete in the very near future. I will be glad to share the results with you. Then, I would like to followup with a copy, at least a little discussion, about the "pushouts" that I mentioned earlier in my discussion.

This institutional survey came from one of our institutions. There were five questions asked. The first question: "How has this program helped your institution?" "~~This~~ program" means "trio" programs: Upward Bound, Special Service, and Talent Search.

The response was as follows: Upward Bound and Special Services are both tremendous assets to LeMoyne-Owen College. Upward Bound is helpful in that it brings prospective college students on to the campus, giving them precollege experience, which has been proven to be a valuable aid in recruitment efforts.

"In addition to recruitment it also helps to broaden the college's appeal and image to the community by work with high school principals, teachers, and counselors.

Many community leaders serve on the program's community resource board. They have proven to be quite helpful by donating their time, energy, and other resources to the college, Upward Bound, and Special Services. The Special Services program is especially helpful in that it helps the same kind of student we are involved with in Upward Bound.

Once that student actually enrolls in the college the Special Services program is helpful to the college in that it provides extra tutors, counselors, and educational materials to students having difficulty with the regular college curriculum.

It is a further aid to the college in that it frees other college resources that would normally be used to tutor and counsel Special Services students.

I asked a second question: "How has this program hurt your institution?" The response is, to the best of my knowledge, Upward Bound and Special Services have had no negative effects upon the college.

The third question: "What are the changes that you see that are necessary to improve the program and make it effective?" The response was, the only changes I see at this time that could help Upward Bound and Special Services would be larger student enrollment with appropriate budget increases.

The fourth question: "What should the Congress know about this program?" I feel that the Congress should know that these programs are needed and that they are doing what they are supposed to do in terms of actual program proposals, student achievements and postsecondary placement for Upward Bound.

Both Upward Bound and Special Services are extremely important parts of the education experience of many of our students.

Finally, the fifth question: "What do you see as an alternative to this program?" The only alternative that I see is to make the same programs bigger and better in terms of services to the students.

I would like to move on to share with you the whole notion of the "pushout." The "pushout" notion has been discussed before the subcommittee of Mr. Hawkins, and the Southern Regional Council did a study on the "pushout" problem which has implications for the Nation because there are many young people who are being sort of cast out of institutions because of the nature of the desegregation situation in many of the institutions.

The students are suffering from alien environments which they have no control over and, in many instances, they are put to extreme kinds of disadvantages which result in their being expelled from school or pushed out of school.

This is something I think these types of programs that we are talking about today can help serve as a bridge to rectify some of these kinds of inequities that are being carried out on students that, in a sense, are not responsible for the types of situations they may find themselves in at this time.

I think, as far as I see the situation, that these are the kinds of things that have to be related to programs such as the "trio" programs in terms of the future direction of minorities, blacks, low-income, and other types of similar situationed persons in our country that they deal with in the future.

Mr. O'HARA. To what extent are the historically black colleges involved as contractors under any of these programs?

Mr. FISHER. I think they are quite involved in the programs. The information indicates to me that in 1972, in the Talent Search program, there were 13 black colleges involved; in the Upward Bound program there were 58 colleges involved; and the Special Services program, there were about 45 involved.

In 1973, in the Talent Search program there were about 13 institutions involved; the Upward Bound program, there were 60-plus institutions involved; and, in Special Services program, there were more than 55 institutions involved.

So, I think the black institutions are doing well in terms of involvement.

Mr. O'HARA. It seems to me that black institutions are in a uniquely qualified position to suggest program improvements, ways in which the program might be made more effective. Do you care to provide us with any such suggestions? We would be very happy to have them.

Mr. FISHER. As soon as the survey is returned by the institutions I will compile the data and see that you get a copy of the findings.

Mr. O'HARA. I should think they would be in a good position to suggest some improvements. It seems to me that one of the problems we had with motivating youngsters, especially youngsters from families where there is no tradition of scholarship or college attendance or even high school graduation, has been making the learning experience relevant to kids from those kinds of backgrounds.

As you know, that is a problem in our elementary and secondary schools. I think one of our problems in getting the youngsters from such backgrounds to continue on and finish secondary school and go on to postsecondary school involves that problem more than anything.

I think black colleges have done quite a good job in making their experience relevant, trying to attract young people and motivate them. But I think more has to be done along those lines as well.

Not everybody wants to go to Harvard. Even if everybody in America had enough money to go to Harvard they wouldn't choose to do so. I have found in my own experience one of the really important things, and this is one of the important roles the black colleges play, is providing relevant opportunities, a variety of relevant opportunities.

I think we are getting to a situation now where for older students or students who are not turned on by the traditional kinds of postsecondary education that we are providing a greater variety of opportunities. I think that is a very important factor in increasing enrollments.

That is one of the things I was talking about, but I am not sure what is producing increased enrollments from low income groups. I think several things are going on all at the same time.

Financial assistance is becoming available. We have these "trio" programs. You have access being improved by the creation of a greater variety of opportunities. I don't know just which one is doing what.

I suppose you couldn't answer that question. It is hard to say, isn't it?

Mr. FISHER. I think it is probably a little bit of all of them. Each of these, in some way, is impacting this change in that direction. I used to talk with many of the former Upward Bound students who were moving into college at Norfolk State. Much of what they had in their Upward Bound experience was relevant. They were reading all kinds of books, paperbacks. They had access to them at the high school level through the program on the college campus.

They were really turned on and fired up, I think. This was a great motivating factor. This encouraged them to move through their work at Norfolk. They were getting what they felt were relevant experiences and reading relevant materials.

Mr. O'HARA. I know all my father's family ended up going to postsecondary education but they all went on to programs that led to a particular career, a particular occupation.

Some of them ended up in law school, medical school, teachers college, but every single one of them ended up in something that, when you got out you had a profession or an occupation.

When you are talking about bringing into postsecondary education people whose parents have never been involved, you have to be able to demonstrate some kind of career objective, something along those lines.

Mr. Dellenback, I know I am rushing you.

Mr. DELLENBACK. Let me just make a general statement, less responsive to Miles' testimony, which I am halfway through, and I appreciate and which I will study the rest of the way, but I note the thrust basically of it and your real contributions to the committee's work in the past.

This whole area of dealing with the disadvantaged is, in my mind, one of the most critically important tasks that we on the Education Committee have to deal with. I feel very strongly about that.

You are aware of, in effect, the reverse impact of something like the DeFunis situation and we want to be very careful that as we go forward with legislation in all of these fields that we do not, in our desire to achieve any worthwhile goals, reverse the impact of the unconstitutionality.

I think for a long time the procedures involved in education were unconstitutionally adverse to the detriment of minorities. In our striving to straighten it out and to bring about real equality we face terribly difficult conflicts between two principles.

If, at the moment, there is a disproportion of involvement in education, teaching professions and all sorts of things between the minorities and nonminorities we want to bring that up to a proportion.

But the increments, if we add them in the amount necessary to bring about a rapid restoration of anything like equality, or at least proportionate equality, means that we must be disproportionate in the increment, which means that for somebody who is in that increment that person, as in DeFunis, raises an objection and says, "This is unfair to me as an individual."

Our task must be somehow to work out that particular problem. I see it in these particular programs we have been looking at this morning. I see it in CLEO. I see it in each of these programs about which both the chairman and I feel very strongly because we want this goal to be achieved, and it does seem to me that our road has to be one of the utilization of sound criteria, which I think relate to the concept of the disadvantaged because if we really concentrate programs on the disadvantaged but do so in a way that does not discriminate on the grounds of these various things, we will, in effect, be doing both.

We will, because of the fact that a high proportion of the disadvantaged fall within these groups we are trying to aid, if we can just stay with criteria of disadvantaged, we can still apply all of the guarantees of equality; equality of opportunity and application, and help bring about a redress.

It may not be as rapid as some of us might like to see, but it will be on a sound basis which, in the long run,will be beneficial.

That is not really a question, it is a comment. Do you have any input that you would make on that, because it runs all through today's testimony, as well as programs of a similar nature.

Mr. FISHER. One of the disturbing facts that tie in with, say the *Brown* decision is that it was hoped that after *Brown* that certain kinds of things would happen that would take care of many of the problems that were operating in this country with regard to students moving through the educational system.

Twenty years after *Brown* we find that we are probably in a worse fix because there are so many different kinds of subleties that are undercutting the movement of students from the early entry points of the educational system to the postsecondary experience.

One of the things that has to be done is to address the total picture. If we focus on the postsecondary experience without really seeing the linkages and really putting that piece together then we won't have, in the future, students able to move through the postsecondary experience, if something isn't done early in the game.

And it goes all the way back to the whole thing of nutrition. In the early stages of child development, as you know, there is a correlation between nutrition and brain development and things of this nature.

So, if you don't have the lunch programs then the student can't do well in school and, consequently the student will begin to move away from the basic things that he or she is there for. A hungry child can't learn.

All of these kinds of problems I see as factors which compound what we are dealing with. If they are not there and there are not certain kinds of programs to pick up where the system falls down then I think what we will see, if a decision such as DeFunis, which is probably going to come back to the courts in another year or two, is a situation not in the best interest of, say, minorities and others. If it goes against them, what you will have in the future, if the elementary and secondary system pipeline is not put in place properly, will be the disproportionate numbers of blacks and low income minorities at the professional level such as doctors, lawyers and the like. The gap will be wider because the predicate for negotiating the higher education system is a sound elementary and secondary system.

If people aren't taught to read, write, and have the necessary skills to negotiate the system then when they arrive at this point they will have been tracked out of the system. One of the things that disturbs me is that in our full employment economy that presupposes 4-percent unemployment, one of the critical issues today is unemployment. According to our system, unemployment is going to be here. The question is one of who is going to be unemployed?

Mr. **Dellenback.** If you deal with 4 percent or any other percent it is an average. It is not only a case of who is going to be unemployed, but if you start breaking it down into subgroups you may find one subgroup is 2-percent unemployed and another one is 9-percent unemployed, and then they average out at 4 percent.

Mr. **Fisher.** And if certain kinds of competencies and preparedness as not carried out for minorities at a certain level then, in a sense, these are going to be the places where they are going to end up; welfare rolls, and exclusion from the whole mainstream of the American situation. We will find ourselves 20 years from now debating the issue and saying we thought we were riding the crest of moving more people into the mainstream.

We will find out somewhere along the way something went wrong and we are worse off now than we ever were. I think this is where we might be going.

Mr. **Dellenback.** I find myself certainly in strong agreement with what you are saying. You are aware this subcommittee has a limited jurisdiction and you are not suggesting that because of the fact we can't solve all of the problems in the postsecondary level that we should ignore the postsecondary level and concentrate everything on the elementary and secondary.

You are saying we have got to do all of it at the same time, but we can't do it just at the postsecondary level. We have to lay the groundwork for it in the elementary and secondary.

Mr. **Fisher.** Yes.

Mr. DELLENBACK. I am sure Jim and I are both in solid agreement on this. That which we can get our hands around at the moment are pieces of legislation like this, which are within the scope of this subcommittee. You have to eat the meal a bite at a time. It means all the vegetables as well as the meat.

Mr. O'HARA. Thank you, Mr. Fisher.

The special subcommittee will now stand in adjournment until 10 a.m. on Monday, when we will meet in room 2261.

[Whereupon, at 11:30 a.m. the subcommittee recessed, to reconvene at 10 a.m., Monday, June 17, 1974.]

CALIFORNIA STATE UNIVERSITY, CHICO,
Chico, California, May 2, 1974.

Hon. JAMES O'HARA,
Chairman, Higher Education Subcommittee,
House of Representatives, Washington, D.C.

DEAR SIR: I would like to take this opportunity to share with you my observations in regards to the enactment of the Educational Amendments of 1972.

While I think that the idea of direct financial assistance to students is an admirable, perhaps even necessary, goal; in the case of Basic Educational Opportunity Grants, the ideal and the actuality are far removed. Under the present system, students may, in some cases, find it necessary to submit three or more discrete applications for financial assistance. They must complete one application for assistance for Supplemental Educational Opportunity Grants, National Direct Student Loans, Work-Study and nursing loans and scholarships, one for Basic Grants, one for Federally Insured Loans, etc. All of these applications request approximately the same information. It apppears as if the inclusion of the Basic Grants Program has merely increased the amount of paperwork, frustration, and administrative time necessary for a student to receive the money he or she needs for education.

To those who would answer by saying that the substitution of Basic Grants and Federally Insured Loans for the SEOG and NDSL programs would eliminate much of the duplication, I would point out that these programs do not eliminate the need for a federal Work-Study Program, nor do they insure equitable treatment for all students.

Many students prefer to work as much as possible during their college years to alleviate the often-staggering debt they will be faced with after graduation. Work-Study provides valuable training and experience for them, often enabling them to achieve better, more rewarding jobs after graduation. Many students would lose these benefits if a Work-Study program were funded only through the state, especially in those states financially unable to bear such a burden.

The Federally Insured Student Loan Program is not a viable substitution for the National Direct Student Loan Program simply because the banks make the rules for it in accordance with bank policy.

Many lending institutions in our area will not make loans to freshmen, to students with unpaid National Direct Student Loans, to student over twenty-five, nor to students without a previously-established depositor relationship. With policies such as these, lending institutions will not be able to meet student needs through the guaranteed loan program.

If, as it appears to me, the philosophy underlying the Educational Amendments of 1972 is the right of each person to a higher education at the institution of his or her choice and the guarantee of funds to achieve this goal, then perhaps it would be more feasible for the federal government to use the Basic Grant system and applications for all major financial assistance programs, grants, loans, and Work-Study. Although one can foresee many difficulties if this were implemented, nevertheless, such a system would eliminate the vast amounts of paperwork, administrative time, and ease the frustration of students and parents who now complete several complicated applications, only to be, too often, disappointed.

The Congress has shown itself sensitive to the needs of students and their parents through the legislation that will eliminate, for the most part, the requirement of a needs test for the Federally Insured Student Program. I trust that this concern will eventually smooth the path to higher education for all who desire it.

Sincerely,

KATHLEEN M. BRISTOW,
Assistant Director of Financial Aid.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 7, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
Cannon House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed for your consideration and review is a copy of correspondence I have received from Mr. Sidney W. Farr, the President of the Maine Association of Student Financial Aid Administrators. Attached to the letter is a position paper outlining the concerns of this group with respect to the formula used to compute Maine's allotment of funds for financial aid.

I would appreciate any information you may offer on the possibility of amending or eliminating the statutory state allotment formulae mentioned which has discriminated against my State. I would also be interested in knowing if your Committee plans to consider legislation of this type in the near future. Any additional comments you may wish to make will also be welcomed. Should you wish to respond directly to Mr. Farr, however, I hope you will send me a copy of your reply.

With thanks and warm wishes,

Sincerely yours,

PETER N. KYROS,
Member of Congress.

Enclosure.

MAINE ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS,
February 8, 1974.

Hon PETER N. KYROS,
Chairman, Special Subcommittee on Education, Cannon House Office Building, Washington, D.C.

DEAR CONGRESSMAN KYROS: As President of the Maine Association of Student Financial Aid Administrators, I respectfully present to you, on behalf of our Association, the enclosed position paper which describes a problem that continues to affect adversely our ability, as Maine institutions of higher learning, to assist our students. We seek your help in correcting this situation, requesting that appropriate steps be taken through your office.

The paper was prepared by Mr. Walter Moulton, Director of Student Financial Aid at Bowdoin College, at the request of our Association and approved unanimously by our membership.

Your colleagues in the Maine Congressional delegation have been given this position paper, as well as Commissioner Ottina and the leadership of the National Association of Student Financial Aid Administrators.

We thank you for your consideration of our request and any appropriate action which you take in its regard.

Sincerely,

SIDNEY W. FARR, *President.*

Enclosure.

A POSITION PAPER CONCERNING THE INEQUITIES OF THE CURRENT STATE ALLOTMENT FORMULAE FOR THE DISTRIBUTION OF FEDERAL FUNDS TO THE NATIONAL DIRECT STUDENT LOAN, THE COLLEGE WORK STUDY AND THE SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAMS

PRESENTED BY THE MAINE ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Now that we have submitted our requests for Supplementary Educational Opportunity Grants, College Work-Study and National Direct Student Loan funds for 1974–75 and the annual appropriations negotiations which determine the funding levels for these programs have been concluded, we feel it is imperative to alert you to a historical inequity in the method of distributing this aid. Appropriated funds are distributed among the states and the basis of allotment formulae which are statutorily mandated. While the formulae vary somewhat according to program they have as a common base the number of persons enrolled in institutions of higher education. Ultimately, such enrollments reflect the total population of the various states which leads to a disproportionately higher share of available funds going to the more densely populated and wealthier states at the expense of the poorer, more sparsely populated states. As more institutions enter the programs and request higher levels of assistance, and as eligibility for aid has been extended to half-time, vocational and proprietary school students, the imbalance in distribution is accelerated. In Maine, this phenomenon can be demonstrated over a three year period in which national appropriations have been more or less constant:

	1971–72	1972–73	1973–74
1. USOE panel approved requests:			
(a) United States	$901,807,000	$1,220,105,000	$1,534,715,000
(b) Maine	4,476,000	8,652,000	18,132,000
2. Allotment available:			
(a) United States	701,100,000	766,500,000	766,500,000
(b) Maine	3,164,000	3,465,000	6,280,000
3. Allotment as a percentage of request (2 divided by 1):			
(a) United States	78	63	50
(b) Maine	71	40	35

While Maine did not lose ground as rapidly in 1973–74, that is only because the Commissioner of Education used his discretionary authority to supplement the State's allotment in two of the three college based programs. No such relief was available with National Direct Student Loans, however. The allotment as a percentage of request in that program was 50% for the United States; in Maine the percentage was 18%, lowest of any state in the country.

Maine and similar states are in an uncomfortable position to say the least, and must prepare for progressively smaller shares of federal appropriations in 1974–75 and subsequent years unless corrective action is taken.

Full funding for all the federally sponsored student aid programs is one solution to this problem, but probably not a viable one if recent history is a reliable guide. Therefore, we ask the Maine Congressional delegation to introduce amending legislation in the present Congressional session abolishing the statutory state allotment formulae. The Office of Education itself, on several occasions, has proposed the same course of action so that all institutions in the nation would receive the same treatment vis-a-vis their panel approved requests versus the amount available.

We believe that amending legislation is necessary to assure that students and educational institutions are treated equitably in the distribution of available federal student aid. It is doubtful that state allotment formulae were ever written into law to act as a geographical discriminant to receiving federal aid. Yet, that is what has happened in the face of inadequate appropriations over the past few years. The Congress has acted consistently in recent years to eliminate discrimination on the basis of race, creed, color and sex. With this in mind it seems totally inconsistent to us that the state in which a student chooses to obtain his education continues to act as a determinant for receiving federal student aid. No such geographical barrier exists to student entitlement in the Basic Opportunity Grant Program, and we feel it is only reasonable to eliminate this discriminant in the college based programs. Since equal educational opportunity is the objective of the federal student aid programs, a method of distributing the available funds which works at cross purposes to that objective should be eliminated. We urge you to take action on this matter now.

[In thousands of dollars]

	1972	1973	1974
National direct student loan program:			
Funds requested:			
United States	387, 165	533, 531	682, 789
Maine	1, 891	3, 556	6, 574
Panel recommendation:			
United States	337, 154	451, 169	576, 969
Maine	1, 811	3, 472	6, 569
Funds available:			
United States	286, 000	286, 000	286, 000
Maine	1, 229	1, 239	1, 189
College work-study program:			
Funds requested:			
United States	345, 642	453, 544	543, 656
Maine	1, 750	3, 436	6, 081
Panel recommendation:			
United States	305, 569	407, 655	489, 650
Maine	1, 706	2, 676	6, 017
Funds available:			
United States	237, 400	270, 200	270, 200
Maine	1, 190	1, 342	2, 726
Supplemental educational opportunity grants program:			
Funds requested:			
United States	296, 000	420, 960	555, 094
Maine	1, 049	2, 607	7, 429
Panel recommendations:			
United States	259, 084	361, 281	486, 096
Maine	959	2, 504	5, 546
Funds available:			
United States	177, 700	210, 300	210, 300
Maine	745	884	2, 365

Humboldt State University, Arcadia California

RESOLUTION CALLING FOR IMPROVEMENT OF THE CURRENT STUDENT FINANCIAL AID CHAOS

Whereas, the Congress of the United States has often been unduly slow in completing action on proposed student financial aid legislation, and

Whereas, the federal administrative bureaucracy has been unbelievably tardy in publishing regulations for established programs (final regulations are not yet published for programs established in mid-1972), and

Whereas, the several legislative, administrative, and regulatory bodies (Congress; California State Legislature; federal Office of Student Assistance; California State University and Colleges; and the California State Scholarship and Loan Commission) have spewed forth an astounding jumble of often conflicting, usually complex, and practically unintelligible application forms, eligibility and reporting requirements, policies and procedures, and informational material, and

Whereas, the sum total of above actions and inactions has resulted in an ever-growing financial aid bureaucratic snarl that has caused undue confusion, pain, and suffering to students, parents, educators, administrators, and counselors, as well as encouraging dishonesty, cynicism, and disrespect for the political and educational institutions of our country,

Therefore, the Student Financial Aids Committee of Humboldt State University begs, implores, pleads, and beseeches the above legislative, administrative, and regulatory bodies to simplify, consolidate, and clarify student financial aid programs; to administer them in a timely manner; and to move toward the entitlement concept (as in the Basic Grant Program) and away from the "Welfare Department" approach (as in the overly complicated, fragmented, overlapping, and contradictory myriad of existing student financial aid programs).

JACK ALTMAN, *Director of Financial Aid,*
(and 9 others).

HUMBOLT STATE UNIVERSITY,
Arcata, California, April 29, 1974.

To: Those concerned

A SIMPLIFIED OVERVIEW OF A POSSIBLE FINANCIAL AID STRUCTURE OF THE FUTURE

A resolution of criticism is not of much value if alternatives are not proposed. The following alternatives seem much preferable to me over what we now have:

All need analysis done centrally (through improved BEOG system) free to student and family; Family Contribution Figure available, upon request, to institutions and state programs.

Basic Educational Opportunity Grant (BEOG)—fully funded.

Supplemental Educational Opportunity Grant (SEOG)—eliminated.

Federally Insured Student Loans (FISL)—no interest subsidy, 6% to student with government paying balance. Available to also fund higher than standard budgets, replace unavailable Family Contribution Figure or expected Student Employment Contribution.

National Direct Student Loans (NDSL)—(no new federal money) or Work-Study (WS)—available only by following formula: Standard Budget less BEOG, Family Contribution Figure, Student Employment Contribution, and other resources (Social Security, VA benefits, state awards, BIA grants, institutional grants and scholarships, AFDC, etc.)=$300 or more.

Advantages

1. Emphasis could be placed on obtaining full BEOG funding.
2. Financial aid programs would become understandable.
3. Only one need analysis document would need to be filed and at no cost to applicant.
4. System could be administered with a smaller bureaucracy than now exists at the institutional level.
5. Available aid would be distributed on a much more consistent and, therefore, equitable basis.
6. Financial aid counseling could take place on campuses instead of present overwhelming and complex paperwork processing requirements.
7. Federal emphasis could concentrate on providing a TIMELY BEOG system.

Disadvantages

1. If BEOG not fully funded, system would not work well. However, the current systems are not working well at all.

If you feel the above possibilities and the attached resolution have merit, please forward copies to others you think would be interested in them.

JACK ALTMAN, *Director of Financial Aid.*

SYRACUSE UNIVERSITY,
OFFICE OF STUDENT AFFAIRS, ACTIVITIES AND ORGANIZATIONS,
Syracuse, N.Y., May 13, 1974.

Hon. JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education, Cannon House Building, Washington, D.C.

DEAR MR. O'HARA: I recently conducted a survey of black students at Syracuse University and thought you might be interested in some of the findings.

78% of the respondents were receiving financial aid and of the 22% who were not, 38% say that they applied for aid but were denied. Of those receiving aid, 60% are getting loan aid and 44% are receiving aid through work study (no analysis was made to determine the percentage getting both loan aid and work study).

Financial considerations were viewed by 67% of the respondents as a problem area; while 30% of those working felt that this had caused their GPA to be lower than it would have been otherwise.

Most of the black undergraduate students are admitted to the University through special admission policy and are thus "high risk". To have to solve financial situations through loans and/or workstudy creates added frustration and anxieties.

NOTE: The data was gathered on the undergraduate black student population at Syracuse. It consisted of 101 responses which represents 20% of the black undergraduate population. The Sample was 56% female and 44% male and consisted of 10% seniors (low), 23% juniors, 33% sophomores, and 34% freshmen.

Respectfully,

HOWARD G. ADAMS,
Personnel Intern.

SAN JOSÉ STATE UNIVERSITY,
San Jose, Calif., July 19, 1974.

Hon. JAMES O'HARA,
Chairman, Education Subcommittee, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN O'HARA: I would like to discuss two possible changes in our student financial aid programs.

1. SUPPLEMENTARY EDUCATIONAL OPPORTUNITY GRANT (SEOG)

I would suggest broadening the concept of what is an acceptable matching source of aid. The current practice is obviously limiting and somewhat contradictory.

For example, NDSL, but not FISL, is acceptable. Yet the FISL program is now the largest single student aid program at our institution and nationwide. If a student had a previous FISL and is now eligible for SEOG under the new guidelines, it seems illogical to match with an NDSL instead of a FISL (assuming a loan is the only practical source of matching).

Some might argue that the FISL is not a program controlled by the institution. To my knowledge, however, most lending institutions send the checks directly to the school for distribution. There is also the institution's responsibility to certify student need, keep accurate records, and coordinate all outside resources. In many ways, there is no difference between FISL and BEOG or state scholarships as far as institutional control and distribution is concerned.

I would also question the necessity to see College Work Study institutional jobs as the only employment acceptable for matching. Why not allow any job that helps the student meet educational expenses?

In brief, I would suggest emphasis on meeting the student's full need from all sources if he is eligible for SEOG. This would include Veterans' Benefits, Social Security, FISL, Disability, outside employment, etc. All of these resources are now coordinated or known to the Financial Aids Officer. The important point should be that the financial aid package is a realistic one and does not impose a matching source that is really not to the student's best interests.

2. COLLEGE WORK STUDY

The CWS Program probably provides the most benefits of any financial aid program. Students are normally placed in jobs that relate to their academic or career goals. The college and the community obviously benefit from the additional manpower at minimal cost.

My concern is with the constant tension between the financial aid offices seeing this program as student aid and the student and employer viewing it as employment. Since students are currently cleared for only a specified amount, they can exhaust that entitlement at any point during the year. (The elimination of the 15-hour week only compounds this problem.)

If the financial aid office terminates a student, the employer and student are unhappy. If the student can justify additional employment, the financial aid office must revise the student's entire package. These countless devisions involve thousands of man hours—requiring verification of expenses, adjusting records, typing new awards, posting, etc.

My concern is that this approach can inculcate a "Welfare Syndrome." Every nickel earned is scrutinized to see if the student is earning too much. If he is, then one of the following alternatives come into play.

(1) *Reduce other types of financial aid* (grants and loans) which represent "hard cash" as opposed to the vagaries of an "hour's pay for an hour's work." Low income students are reluctant to give up the hard cash which normally pays

their fees, books, and supplies, and at least part of their monthly room and board. These are "fixed" outlays that must be met. On the other hand, Work Study checks can vary from month to month depending on the number of hours worked, sickness, vacation, employer's needs, the need for additional study time, exams, etc.

(2) *Terminate student from the job.* This obviously is least satisfying to the student and employer. It also implies, due to the required coordination of resources, that the student is ineligible to get any other type of employment since he must report his earnings. If his total earnings then exceed the college budget, he is liable to repayment of any amount that constitutes an overaward.

(3) *Revise the student budget.* This requires a careful documentation by the student of all his expenses and submission of his bills, check stubs, etc. Then the counselor must sort out and analyze all these materials and determine which are legitimate educational costs, write up a lengthy explanation, revise his package, send out a new award level, etc. This can take place two or three times for many students during the academic year (not to mention summer awards). This is obviously the correct procedure and must be done to protect the institution audit-wise against any overaward. However, the 3% administrative fee simply does not pay the actual cost of any sizable program and the financial aid officers have literally reached the breaking point with all the added responsibilities (especially FISL) which do not allow for additional staff personnel.

All three of the above alternatives parallel the welfare approach with the financial aid counselor becoming more and more the eligibility worker and the student the dependent client. Since work, work habits, work motivation, and work related to career goals are so vitally important for low income students (many of whom come from a welfare type background), it seems to me to be self-defeating to exercise the above alternatives.

I would suggest consideration of the following possible option: If a student is eligible for the program, he is eligible—period. No amount is specified, no revision is necessary. Earning records, however, would be kept. To prevent excess earnings, student's employment would be limited to 15–20 hours per week which is a reasonable limitation.

I think this option would be most beneficial to everyone concerned: the student, employer, and financial aid counselor. It avoids the welfare syndrome, encourages work for low income students, and possibly rewards with some discretionary earnings those who do work.

Sincerely yours,

RICHARD C. PFAFF,
Associate Director of Financial Aids.

COMMUNITY COLLEGE OF BALTIMORE,
Baltimore, Md., June 18, 1974.

Hon. JAMES G. O'HARA,
Chairman, House Subcommittee on Education and Labor,
Washington, D.C.

MY DEAR MR. O'HARA: I am writing this letter in order to share my views on current deliberations on specific higher education programs that expire on June 30, 1975.

My comments are directed to the following major points:

1. Basic grants—I encourage full funding of basic grants in context of full compliance with Congressional intent as reflected in the Education Amendments of 1972.

I suggest that unexpended BEOG funds be carried over to the next fiscal year as requested by the Office of Education.

I urge that some funds to institutions for administrative costs of the BEOG Program be earmarked for the financial aid officer's administrative expense.

2. SEOG—Although I concur with Representative John Dellenback that the SEOG Program "includes over-reliance on experienced financial aid officers . . ." I believe that the SEOG Program should be funded. Costs of private post-secondary educational institutions are such that even a $1,400 BEOG as the sole source of aid does not make the high cost institution as accessible as the public one. If we are to have equal access to post-secondary education, then SEOG funding will be required to make private education even slightly competitive.

3. NDSL—I encourage funding for the NDSL Program until the commercial lending community is able and willing to absorb the additional loan volume that

NDSL candidates will create. Possibly with NDSL funding, in the next three years, some current participating institutions could have an established revolving loan program level sufficient to meet borrowers needs.

4. CWSP—I encourage continued funding for the College Work-Study Program. If education is to be "preparation for life" then it seems essential that on-the-job vocational experience would be a requisite for education.

I would encourage a greater than 3% of expended CSWP funds for an allowable administrative expense. Administrative expense is necessary to provide more off-campus employer contact and better integration of the student's work experience with the academic experience.

I encourage Congress to permit some change in the Work-Study law to allow students to stay on their jobs longer than their financial need entitles them to under the current College Work-Study Program.

5. Guaranteed Loan Program—For the economically disadvantaged student, the Guaranteed Loan Program is not a realistic opportunity. The impoverished student in most situations does not have an account at a bank and has little or no established credit history. Therefore, most banks are inhibited and in fact opposed to making a loan to the economically disadvantaged student because of a lack of bank support and the potential of a loan default.

6. *Some other suggestions regarding the student financial aid programs:*

A. Institutions should be allowed to have student financial aid funds carried over by institutions from one year to the next.

B. Although there exists in law both substantive and procedural issues, the procedural problems involved with the administration of federally funded student financial aid programs are paramount. There needs to be uniformly in student needs analysis application and technique, there needs to be uniformly in financial aid fiscal reports, there needs to be readily available current manuals on each of the federal government programs. The procedural headaches must be given consideration if the financial aid community can be expected to serve the students financial needs.

C. I strongly recommend that Title IV, Subpart 5 of the Higher Education Act of 1965 as amended in 1972 be appropriated at a level of $200 million dollars.

D. Greater funding of federal student financial aid programs is needed because—

1. Each year more post-secondary institutions are requesting federal student aid funds for the first time.
2. The 1972 Education Amendments extended eligibility for all student financial aid programs for the first time.
3. Institutions which have participated in the past will have increased student financial demands.

7. I encourage continued funding for the TRIO Programs. The TRIO Programs are essential to assist, encourage, motivate and identify exceptionally needy students.

Financial aid programs are not an investment in merely an individual or a society or a specific institution, but in all three. Financial aid is the means for providing the student an opportunity to attend college and develop his educational capacity. This financial aid officer believes that when a student develops to his educational capacity, he not only enhances himself, he will ordinarily contribute to his institution and to the society in which he lives.

Sincerely yours,

Douglas S. MacDonald,
Financial Aid Coordinator.

The Commonwealth of Massachusetts,
University of Massachusetts, Amherst,
May 29, 1974.

Hon. James G. O'Hara,
House of Representatives,
Washington, D.C.

Dear Congressman O'Hara: As you continue your review of student aid programs, I would like to bring one particular point to your attention. The relationship between social security benefits and federal aid programs, specifically the Basic Grant Program.

I am enclosing a copy of a draft chapter I have written for inclusion in the College Scholarship Services' *Manual for Financial Aid Officers* but as it is somewhat lengthy I'll try and restate the problem more succinctly.

Social security benefits are extended beyond age 18 (up to age 22) to fulltime, unmarried students of parents covered under the Social Security Act.

The Basic Grant Program considers the social security benefits received by an individual student as the student's resource and reduces BEOG eligibility as a result; aid administrators are likewise supposed to consider social security benefits although the Office of Education has never issued a definitive statement on how the benefits are to be counted.

The problem is a simple one, the solution is more complex. As you will note on Table I, social security benefits are not sensitive to family size. At the minimum benefits, there is no difference between the one child and two child family. At the average and maximum benefits, there is an increment between one and two children; but, thereafter, the total amount received by the family unit is a constant regardless of how many children are involved.

TABLE I.—SOCIAL SECURITY BENEFITS, MARCH 1974

	Mother [1] and children to age 22				
	1 child and mother	2 children and mother	3 children and mother	4 children and mother	5 children and mother
I. FATHER DECEASED					
Minimum benefits to family, $135.80 maximum:					
Each	$67.90	$45.30	$34.00	$27.20	$22.70
Total	135.80	135.90	136.00	136.00	136.20
Average benefits to family, $418.20 maximum:					
Each	177.00	139.40	104.60	83.70	69.70
Total	354.00	418.20	418.40	418.50	418.20
PIA 304.90: Maximum benefits to family, $553.20 maximum:					
Each	228.70	184.40	138.30	110.70	92.20
Total	457.40	553.20	553.20	553.50	553.20

[1] Child under 18 in care.

The stated purpose of the extension of social security benefits was to assist students in continuing their education—a financial incentive and support measure. If we look to average benefits, and consider one example, the problem is obvious.

Assume a mother and 3 children with social security as the only income. They have been receiving $418.40 per month. The eldest child turns eighteen and becomes a full-time student. That individual is now mailed a separate check for $104.60 while the mother and other two siblings receive a check for $313.80. The student reports his social security benefits on his BEOG application. The approximate $950 reported reduces his eligibility by a like amount. For the 1973 processing year, the great majority of our social security recipients did not receive basic grants.

Thus, the social security recipient student is not eligible for much financial aid, and the living standard of his mother and siblings is reduced.

If the individual chooses not to go to college on a full-time basis, then the mother still continues to receive the $418.20 for herself and her two other children and the eighteen year old can work and/or attend school part-time (with potentially increased aid eligibility as social security benefits are not counted).

The effect of current regulations on all social security families that have more dependents than are needed to reach the maximum benefits (more than one child in disabled and retired cases, more than two in deceased cases) is to reduce the student's eligibility for aid while also reducing the social security received by other members of the family unit below the level they would have received if the other dependent was not a student. The regulations make it economically disadvantageous for a social security recipient to go on to college.

I can see two possible solutions to the problem.

(1) Treat the student's social security apart from the family's. The family unit including children under 18 would continue to get their maximum entitlement. The student's social security would be additional monies and a positive incentive to enroll in post-secondary education.

(2) Apply a student increment regulation to federal student aid program, i.e., information is collected on number of dependents and the total social security income of the family. If there are more than the needed number of dependents not counting the applicant, then no social security benefits are charged to the applicant.

Thus, one child families and some two child families would have social security counted as a student resource as it is now but larger families would not have to suffer an income reduction because one of the family decided to go to college. It is probably impossible to do anything about Basic Grant regulations at this time but with the inclusion of 4–5 questions on social security, it should be possible to implement a student increment approach for 1975–76.

As a temporary measure, we are advising our students from over the maximum size families not to apply for continuation of social security benefits and to indicate on their BEOG application that they will not be receiving said benefits.

I hope that in the course of your hearings, you will find time to consider the role of social security in student aid. The present situation obviously forces us to deal in injustices and terms economic disincentive to families as student assistance—yet another area where rhetoric and reality are in conflict.

Thank you for your interest in student assistance programs.

Sincerely,

RICHARD A. DENT,
Director, Financial Aid Services.

Enclosure.

SOCIAL SECURITY BENEFITS

Social Security payments are extended beyond age 18 to the unmarried sons and daughters of deceased, disabled or retired parents covered under the Social Security Act if those sons and daughters are continuing their education on a full-time basis. Benefits can be received by the student up until age 22 as long as they retain full-time student status. It has been estimated that approximately 646,000 students in this 18 to 22 age group recived $855 million in benefits payments during the 1973–74 school year (Source—"Need a Lift" 23rd edition American Legion).

The two tables included below list the minimum, average, and maximum social security benefits available to eligible recipients as of March 1974. An examination of the tables clearly indicates some of the equity problems faced by aid administrators in the computation of need for social security recipients.

TABLE I.—SOCIAL SECURITY BENEFITS, MARCH 1974

	Mother [1] and children to age 22				
	1 child and mother	2 children and mother	3 children and mother	4 children and mother	5 children and mother
I. FATHER DECEASED					
Minimum benefits to family, $135.80 maximum:					
Each	$67.90	$45.30	$34.00	$27.20	$22.70
Total	135.80	135.90	136.00	136.00	136.20
Average benefits to family, $418.20 maximum:					
Each	177.00	139.40	104.60	83.70	69.70
Total	354.00	418.20	418.40	418.50	418.20
PIA 304.90:, Maximum benefits to family, $553.20 maximum:					
Each	228.70	184.40	138.30	110.70	92.20
Total	457.40	553.20	553.50	553.50	553.20

[1] Child under 18 in care.

TABLE II

		Children to age 22			
	Father	1 child and mother[1]	2 children and mother[1]	3 children and mother[1]	4 children and mother[1]
II. FATHER RETIRED OR DISABLED					
PIA 90.50: Minimum benefits to family, maximum $135.80:					
Each	$90.50	$22.70	$15.10	$11.40	$9.10
Total		45.40	45.30	45.60	45.50
PIA 187.10: Average benefits to family,[2] maximum $286.10:					
Each	187.10	49.50	33.00	24.80	19.80
Total		99.00	99.00	99.20	99.00
PIA 304.90: Maximum benefits to family, maximum $553.20:					
Each	304.90	124.20	82.80	62.10	49.70
Total		248.40	248.40	248.40	248.50

[1] Child under 18 in care.

[2] Average benefits to disability beneficiaries are higher than to retired beneficiaries.

Note: Claims filed after February 1974 by student beneficiaries 18 to 22 will result in benefit payments going directly to the student rather than to mother or father.

The basic problem with social security benefits from a financial aid administrator's point of view is that social security is generally not responsive to increases in family size. If you will note the minimum benefits offered the dependents in a father deceased family—there must be one surviving parent and one eligible dependent to reach $135.80. Once that figure is reached, there is no increment for additional children, the pie is merely cut into smaller slices. For the deceased parent family that receives either the average or maximum benefit, there is an increment between 1 and 2 children ($64/month at average benefits and $96/month at the maximum). However, beyond two eligible dependent children, there is no increase. A family with 5 recipient children receives the same total dollars as a 1 parent-2 child family.

One of the basic precepts of all need analysis systems is the attempt to treat families in like economic circumstances equitably. Need analysis systems are particularly responsive to the effect of family size on the ability of the family to contribute towards college costs. Social security is basically insensitive to family size differentials and therein lies the aid administrator's paradox. In attempting to solve the conflict, individual aid administrators and a number of state agencies have attempted to design approaches that would balance the stated interest of the law, i.e., that the benefits are intended to support the 18–22 year old students with the reality that usually there is no increase in the money available to the family unit to carry out that intent.

THE FAMILY INCOME APPROACH

Social security checks are sent monthly to the surviving parent or parents. Normally all eligible dependents are covered by the one check. The money therefore tends often to be spent by the family unit as family income. Until recently (February 1974) there was o change in the check distribution pattern for eighteen to twenty-two year old recipients. Unless the student specifically requested that the check be sent to him or her personally, the student was still included in the one monthly check sent to the parent and the income was often considered by all family members as family income. Aid administrators were often faced with students who said—"you can't count my social security, I never see it—it's needed at home." Often the student was right—the money was needed at home. In order to compute an equitable share for an individual student, aid administrators started to use income limits for family units under which social security would not be considered available to a student.

Some institutions used the Bureau of Labor Statistics (BLS) moderate budget standard and decided that unless total family income exceeded the moderate standard they would not count social security. Many other aid officers and a number of state agencies used a more conservative approach. They would use the income levels identified by BLS and state labor departments as those levels where families had just emerged from poverty and would consider as available only the amount over the poverty line. For example, a mother and three children with a total income of $5,000 in a state where the poverty level is identified as $4,200 per year. The computation would go $5,000—$4,200=$800 (presumed to be available social security benefits). Some individuals would divide the $800 by the number of dependents (3) while others would consider the entire $800 available for the applicant (assuming that a straight division of the social security benefits would have been greater than $800).

The attempt was to apportion the amount that the student could reasonably have available without forcing great disjunction in the family unit's living standard.

There were often times where the mother was employed or where a stepparent was in the pitcure where family income was substantial and yet the student was not given any of the social security income. Most aid administrators have been in the position of advising students that their social security was going to be counted in full as a student resource and that the student might wish to ask the social security administration to mail the student portion of the benefit directly to the student.

As of February 1974, social security checks for students age 18–22 will be mailed directly to the student unless the student requests that they continue to be sent to the parent.

This change in pattern will cause aid administrators another dilemma. If the 18 year old indicates that he or she is going on to school, the family income will automatically be lowered by the amount sent directly to the student, that amount will then be considered as a student resource and for programs like BEOG will automatically reduce the student entitlement.

One of the purposes of the extension of benefits to the 18–22 year old student group was to encourage individuals to further their education and to provide support for them in the process. In reality the social security process can be a disincentive to college going. If a family with 3 or more dependent children is living strictly on social security benefits, they are by definition a low income family. No parental contribution would be expected from most of these families. Yet by the act of going to school—the family income is reduced and the student eligibility for aid is dropped.

Example: Father deceased, mother and 3 children the eldest of whom is turning 18. The family receives average social security benefits of $418.40 per month. They have no other income. The family's total income is $5020. The CSS Table F contribution figure would be negative (–$316) and the student applicant would have full need. However, because the income is social security, one-fourth of the income ($1255) is attributable to the applicant and ¾'s (9 months worth) of that is considered a school year resource $940). The other family members (mother and two children) are supposed to live on $3765 per year while the student applicant starts with resources of $940 rather than $0 as he would of if the income had been anything else but social security.

If the eighteen year old had gotten a job instead of going to school, he would have had whatever he earned and the family income would have remained at $5020 per year but with one less person to support on that income. The present results often are inequitable and seem to contravene the intent of the legislation.

THE STUDENT INCREMENT OR "BUT FOR" APPROACH

One approach that seems to make sense and to support the incentive base of the extension of social security benefits to students is the "but for" approach, i.e., "but for" the fact of the 18–22 year old student status, what would be the benefits received by the family unit. If the student is the only dependent child, social security attributable to him/her would have stopped at age 18 but for the student status.

This is true in both death and retired or disabled parent cases. For parent deceased cases, there is an additional increment (except at the minimum benefit level) between the first and second dependent child. Note the average benefit line on Table I—the difference between one child and two is $418 minus $354 or $64 per month, not the $139.40 indicated in the chart.

This approach re-enforces some basic principles of need analysis. We accept applicants and their families as we find them. We do not penalize larger families for having more children. We count all sources of income and do not discriminate against specific income types and we seek to treat families in similar economic circumstances equitably.

The present treatment of social security families for multiple child families does damage to the principles of need analysis, it discriminates against social security recipients in the award of aid, and results in the reenforcing of a disincentive towards college going in the guise of aiding students.

Eventually, the role of social security benefits in student aid will have to be resolved by the respective federal agencies or the Congress. Until then aid administrators will need to develop approaches that will not penalize social security recipients, and those approaches should consider family size, other income available and the real effect of considering social security benefits as direct student resources.

WESTBOROUGH JUNIOR HIGH SCHOOL,
South San Francisco, Calif., May 24, 1974.

JAMES G. O'HARA,
Chairman, House Education Subcommittee,
House of Representatives, Washington, D.C.

DEAR MR. O'HARA: I am writing as a concerned citizen and as an officer of the South San Francisco Community Scholarship Association to ask for your assistance in correcting a situation which has been exacerbated rather than alleviated by the federal government's intervention. I refer to the redtape and expense associated with the B.E.O.G. Program. It is resulting in qualified students, particularly those with middle class backgrounds, becoming discouraged and deciding against pursuing college educations. Our universities are having to lower their standards to accommodate students with low academic potential because of the shortage of qualified applicants who can afford a college education.

We cannot ask students and parents to expend the effort and the money needed to apply for financial assistance with little or no assurance that it will be forthcoming.

Our Scholarship Association is sending you, under separate cover, copies of the forms which must be completed in order that a student be considered for financial aid. We have computed the application cost to each student as $91.25 including fees to be paid universities, testing agencies, and financial aid computation agencies.

Please, before we lose a generation of educated leadership, let us do something about this problem.

Sincerely yours,

EDNA F. DELARIOS,
Principal.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 14, 1974.

Hon. CARL E. PERKINS,
Chairman, House Committee on Education and Labor,
Washington, D.C.

DEAR MR. CHAIRMAN: I am enclosing a resolution passed by the Western College Association urging that major adjustments be made in financial aid programs. I hope that you and the other Members of your Committee will give every consideration to the views expressed by this Association.

Sincerely yours,

CHET HOLIFIELD.

Enclosure.

WESTERN ASSOCIATION OF SCHOOLS AND COLLEGES,
Oakland, Calif., May 6, 1974.

Hon. CHET HOLIFIELD,
Washington, D.C.

DEAR MR. HOLIFIELD: On March 22, 1974, the membership of the Western College Association, assembled for the annual meeting in Claremont, California, passed the attached resolution and asked that it be referred to you for appropriate attention. We are certain that this region is not alone in pleading for major adjustments in the financial aid programs.

For your information, the Western College Association includes 122 active and 66 associate member institutions in California, Arizona, Guam, Hawaii, Idaho, Nevada, Oregon, and Utah.

We trust that you and your associates will give careful attention to this resolution.

Sincerely,

KAY J. ANDERSEN.

Enclosure.

WESTERN COLLEGE ASSOCIATION,
OAKLAND, CALIF.
Claremont, Calif., March 22, 1974.

RESOLUTION

Whereas the cost of higher education is escalating to a point which is increasingly depriving all but the economically elite of that education without outside financial assistance;

Whereas the multiplicity of different programs for financial aid with different regulations of eligibility are so confusing to those they are designed to serve and to those who must explain and administer them that their effectiveness is reduced;

Whereas the institution of the means test for the federally guaranteed loan program has made ineligible many of those for whom that program was designed;

Whereas the level of matching parental contribution required in the BEOG program precludes the effective use of that program by economically deprived students, particularly minority students;

Therefore be it resolved that the Western College Association, while applauding the original intent of the BEOG program and the Federally Guaranteed Loan Program, among others, urges that these programs be adjusted to serve better the students for whom they were designed; that immediate effort be made to coordinate, give internal consistency to, and reduce the multiplicity of different, and often conflicting, requirements of federal, state, and other agencies; and that the goal of such action be to provide the greatest benefit for the greatest number of qualified students who need assistance with the least administrative complexity, and thus with the least diversion of available funds to overhead costs.

SAWYER, COLLEGE OF BUSINESS,
Los Angeles, Calif., May 15, 1974.

JAMES G. O'HARA,
Chairman, Congressional Committee on Education, House of Representatives, Washington, D.C.

DEAR MR. O'HARA: It was a pleasure meeting you at the recent WASFAA conference in Santa Cruz, California. You may remember we talked very briefly prior to your opening speech and I indicated you would be hearing from me.

I have been in student aid administration for thirteen years in a California public university prior to relocating at a proprietary school and feel compelled to identify some legislation which I believe is extremely discriminatory insofar as the student aid regulations prevent equitable funding to all students in our country.

The most recent example of this discrimination is the comparison of initial and renewal SEOG distribution reflected in the state formula announced at the WASFAA conference.

The Higher Education Act of 1972 refers to the "neediest students" in awarding SEOG. No reference appears regarding the traditional preferences of funding renewal students first and then initial SEOG (EOG) applicants. If SEOG is truly intended for the neediest students in our country, legislation should by now reflect this intent and funding to institutions be more equitably distributed than the 62 percent renewal and 29 percent initial formula. I contend that this institutional funding formula perpetuates discrimination against the "neediest students" attending proprietary schools who have been denied this program until last year and who without this program have been forced out of school due to lack of funds and who are now only extended token assistance.

The opportunities of this country have provided a new type of typical college student quite different from the traditional dependent student of prior years.

I contend our typical college student today is Mr. & Mrs. America made up of returning veterans, older students and single parents; not the independent type denoted in the recently announced Vermont survey. There is legislation for veterans and legislative techniques for allowances against veterans' income and assets. However, nowhere is there any approved allowances for single parents. Institutions which have a large percent of these bona fide independent types are not allowed to use up-dated Bureau of Labor Statistics in their Institutional Applications for funds until Congress approves something other than OE Administrative memo 2–72 BLS figures. Institutional funding is not realistic and is inadequate, and students are therefore curtailed in opportunities.

Lack of up-dated budgetary and application guidelines for institutions are producing a game among some application preparations in securing funds for the student by way of inflated enrollments, needy students projections, misrepresentation of program length and any other loophole that can be found. Institutions which honestly present the facts without playing a game can't help but question the application process in view of how some institutions made out in panel reviews to Washington. I contend all Institutional Applications with high percents of independent students should be recalled, reviewed for bona fide independent students and refunded appropriately with up-dated BLS budget increments. Panel reductions in enrollment and needy student figures should be substantiated by some facts if institutions must substantiate their application projections. Further, the Institutional Application for campus-based programs should be redesigned for computer analysis and include only an institution statement of enrollment projections, program lengths, needy student percentage distribution by various budget categories and averaged student resources backed by an explicit narrative and catalogue.

The Basic Grant program supposedly intended for the student to be allowed to attend the school of his choice contains regulations perpetuating disproportionate funding to students attending proprietary schools when compared to the students attending four-year institutions as follows:

1. Students at four-year institutions can apply for the Basic Grant each year while they pursue two years of general education courses and two years of major requirements. A proprietary school student enrolled in only a six month concentrated program which expedites his or her entry into the job market, is allowed only six-eighths of a traditional academic year award. Why not allow these six-month programs be the students own academic year, and allow him full benefits?

2. Also, a student attending any institution in which his final three months of a twelve month academic program ends prior to a new fiscal year should be allowed an accelerated term allowance out of the prior fiscal year since the student is no longer in school.

3. Basic Grant regulations stipulate eligible students are those who have a high school diploma or equivalency. Other programs specify that students are eligible if the Institution normally admits high school graduates. It is conceivable that needy students judged to have potential, who do not have the high school diploma or equivalency are being denied equitable opportunities in this program.

The discrimination in the Guaranteed Loan Program is one that is most shocking. Published statistics show lending institutions invested 6 billion dollars in this program during 1973. The federal government invested $201 million in the interest subsidy portion of this program during 1973. Students attending proprietary institutions are not benefiting from their tax dollars because banks were not loaning money freely to proprietary school students then and the situation is now worse. Proprietary schools are subjected to deals not allowed by legislation such as discounted loans, points, etc., and all first-year students who are needy are denied freedom in the selection of the school of their choice.

I contend the Guaranteed Loan Program should be terminated and subsidy funds reallocated to expanded campus based programs if the discrimination is not ended. The regulations do give the banks the privilege of lending their principal to whom ever they want; however, I cannot believe that law intended to open the door to the situation that now exists.

Proprietary schools have been the target of much criticism due to the published default information. In fairness to this situation, I think the overall inequitable funding to these students may be partially to blame for defaults. Needy students who are not interested in a traditional four-year college and who have only the

NDSL and/or FISL programs available to them may have had to drop out because of the deficit in packaging and are unable to pay back loans because they never benefited, as do students in other institutions, *which have several programs and funding for adequate packaging.*

Students in proprietary schools are structured into classes for their programs. Students at other institutions are very often allowed to wander from their objective, taking longer to complete their programs and at the taxpayers' expense.

I have previously disagreed with comments made by the Administration that the financial aid programs are not working. I see now that they are not working only because they are not set up for all the students in our country. I believe these programs can work and should be continued. Perhaps our country's representatives are not availing themselves of the most knowledgeable student aid administrators from all sectors of education and therefore only the obvious interests are being recognized. As a taxpayer, I wish to see my tax money equitably distributed among these students who are our country's future leaders regardless if they choose to be only a voting citizen rather than office holder.

Very truly,

THERESA BARRY,
Director of Student Assistance.

THE MERCHANTS NATIONAL BANK OF MOBILE,
Mobile, Ala., May 1, 1974.

Hon. JAMES G. O'HARA,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: This is to express my interest and growing concern in regard to the Basic Educational Opportunity Grant, commonly called the B. O. G. While I am not opposed to students receiving grants, I feel the grants should be given on the basis of some sort of achievement. I am, however, very much opposed to students receiving grants (from our tax dollars) and never completing school. It is my understanding that the majority of students beginning college never graduate. In this age of big Government spending and large welfare programs, many of which are later abandoned, discretion should be the key word in any program where the taxpayer's hard earned dollars stand a good chance of being squandered.

As a possible solution I submit the following:

Continue the program as it is basically outlined but in the form of a *loan.* Disburse the funds on a quarterly or semesterly basis to be credited to any outstanding school related debt(s) the student may owe, such as tuition, room and board, books, etc. If the student finishes his education within a reasonable period of time the loan(s) may then revert to a grant and the student would be relieved of the repayment of this debt. If, however, the student does not complete his education, any debt incurred from this program should be considered a loan and repayment by the student should begin within a reasonable period of time.

I have discussed my theory of the B. O. G. with a number of Financial Aid Administrators and have found their thinking is much in line with my own.

A number of them expressed interest in a larger funding of the College Work-Study Program. I fully endorse this program and do not favor its decline.

While I do not have a vast knowledge of all facets of Financial Aid, the thoughts I have expressed are not a subject of which I have little or no knowledge. I have administered the Student Loan Department of my bank for over three years. I am in constant contact with financial Aid Administrators of various colleges and other lenders.

I would appreciate your consideration in the above matters and your opinions would be of interest.

Sincerely yours,

EUGENE BARNES,
Assistant Cashier.

UNIVERSITY OF CINCINNATI,
Cincinnati, Ohio, April 26, 1974.

Hon. JAMES G. O'HARA,
Congress of the United States, House of Representatives, Committee on Education and Labor, Special Subcommittee on Education, Washington, D.C.

DEAR MR. O'HARA: This is with reference to the proposed regulations under Part 176 of Title 45 of the Code of Federal Regulations governing the operation of the Supplemental Educational Opportunity Grants Program.

Please refer to Section 176.2 (Definitions), (r), (3) which describes "Self-supporting or Independent Student". The section stipulates that such a student "has not lived or will not live for more than two consecutive weeks in the home of a parent during the calendar year in which aid is received and the calendar year prior to the academic year for which aid is requested." This proposal seems highly restrictive and unfair since it would prohibit a student from spending the Christmas vacation period or a part of the summer with his parents. It is also inconsistent with current regulations governing the National Direct Student Loan and College Work Study Programs. If the two consecutive weeks residency prohibition is approved all of our independent student financial aid awards will have to be recalculated and based upon the submission of a Parents' Confidential Statement rather than a Student Financial Statement. This additional work would be an extreme hardship for our office and, we're sure, many other financial aid offices. We recommend that the section referring to two consecutive weeks residency Section 176.2(r)(3) be deleted from the regulations.

With respect to Student Eligibility, Section 176.11, . . . "a student shall be considered in exceptional financial need if his expected family contribution does not exceed 50 percent of his cost of education at the institution in which he is enrolled or accepted for enrollment." Because of our varied fee structure, we would have to check each application to determine if the family contribution did exceed 50 percent of the student's cost of education. Since we process nearly 10,000 applications each year, this would place an undue hardship on our office. We recommend that Section 176.11 be deleted.

Section 176.9, Coordination of Student Financial Aid Programs, refers to loans made under Title IV–B, Higher Education Act of 1965. In Sections 176.9(c) (1) and (2) it proposes changes in student resources depending on whether loan amounts exceed expected family contribution or not. If this regulation is approved, it will be necessary for us to amend our financial aid awards at a later date as a result of changing student resources. This would be highly undesirable. We recommend the deletion of Section 176.9(c) (1) and (2).

Under Section 176.19(b), Affidavit of Educational Purpose, a legally authorized person may notarize the student affidavit provided the notary "does not take part in the recruiting of students for enrollment at such institution." (This needs clarification.)

The proposed Section 176.12, Expected Family Contribution for Dependent Students states in (b)(5) that "tuition incurred by such dependent children who are attending elementary and secondary schools . . ." should be taken into consideration by the financial officer in determining the amount which reasonably may be expected to be made available to a dependent student by his parents. This would seem to be inconsistent with other needs analysis systems, including the CSS, ACT, BEOG or Income Tax Method, which do not consider elementary and secondary tuition costs incurred in assessing family ability to provide educational funds.

In summary, we strongly recommend the deletion of:

Section 176.2(r)(3)
Section 176.9(c) (1) (2)
Section 176.2(a)(3)

Regarding Section 176.19(b) we suggest the publication of a clearer definition of those persons who are eligible to notarize the student affidavit.

Sincerely,

HARRY L. BECK,
Associate Dean, Educational Services,
and Director of Student Financial Aid.

North Dakota State University,
Fargo, N. Dak.

Mr. Peter K. U. Voigt,
Director, Division of Basic Grants, Department of Health, Education, and Welfare, Office of Education, Washington, D.C.

Dear Mr. Voigt: The eagerly awaited "Basic Grant Payment Schedule" for 1974–75 has arrived; however, I am deeply disturbed by the provisions of the schedule which dictate that actual individual cost data be established and utilized in determining the amount of the Basic Grant stipend.

Our office has delayed sending 1974–75 award notices to students pending receipt of the "Basic Grant Payment Schedule" with the expectation that the exact amount of the Basic Grant could then be determined and specified as a resource on the student's award letter. This was considered essential to eliminate (or at least minimize) subsequent adjustments to individual aid packages. Because of late notification of BEOG Awards, most 1973–74 award letters mailed last summer did not include the Basic Grant Award and, as a result, hundreds of aid revisions were required when the BEOG recipients arrived on campus in the fall. These revisions generated an administrative burden of near chaotic proportions—we do not relish the prospect of a similar ordeal this fall.

In spite of this concern, however, we discover that the provisions of the new "Basic Grant Payment Schedule" would create an administrative problem of even greater size and complexity. First of all, there is no conceivable method by which we can establish individual room and board cost figures for BEOG recipients until late summer or until they arrive on campus this fall; consequently, we will be compelled to either delete reference to the BEOG on the award letter, or establish an "average" cost and calculate an estimated BEOG stipend on this basis. In either case, we must again anticipate the administrative confusion of adjusting the majority of aid awards made to BEOG recipients.

Our overriding concern, however, is the increased complexity of the adjustment process resulting from a multiplicity of room and board options. For example, a student attending our institution next fall can choose from a total of fifty-seven board and/or room options, depending upon one of ten residence halls selected, 5-day or 7-day board contract, single or double room, etc. A student's selection of one of these options would prescribe the use of one of eleven separate cost figures for the BEOG computation. (Six of these cost figures fall below the $1,100 room and board standard set by the "Payment Schedule," and four are above.) These eleven cost figures, in turn, would fit into one of five cost categories on the "Basic Grant Payment Schedule." (The problems discussed here do not involve our out-of-state students inasmuch as tuition charges for these students place them at a cost figure above $2,100; however, these students represent only 10–15% of our aid recipients. Total cost figures for ALL in-state students at our institution will be less than $2,100.)

The prospect of accurately determining which of the fifty-seven options will be utilized by the hundreds of individual BEOG recipients expected on our campus this fall is staggering. (When I called our Director of Housing to explore methods of gathering this data, he threatened to hang up on me!) I hesitate to even suggest the likelihood that many BEOG recipients will utilize more than one of these options during the course of an academic year, thereby significantly altering his educational costs and thus, logically, affecting the amount of his BEOG entitlement.

Utilization of actual cost figures will also create the near incredible situation whereby a BEOG recipient living at home one or two blocks from our campus could qualify for a Basic Grant stipend $74 greater than a recipient living in a double room in one of our residence halls on a 5-day board contract. It is also significant to note that the student on the 5-day board contract would generally pay cash for his weekend meals, whereas the student at home could pocket the $74 and eat with his parents.

Hopefully, the above will adequately demonstrate the bewildering complexity of a system which dictates utilization of individualized cost data for BEOG computations and provides reasonable evidence that more realistic and workable procedures must be devised.

I am aware that the legislation addressed itself to "actual cost of attendance"; however, it also specifies that the definition of this cost is "subject to regulations of the Commissioner." Accordingly, I would urge that the Commissioner prescribe cost standards which would enable the financial aid officer to establish the exact BEOG stipend prior to construction of a total aid package. I would propose that this could be accomplished by permitting institutions with total cost figures under $2,100 to utilize the $1,500 standard cost figure for all BEOG recipients. The institutional tuition charge would be added to this cost, permitting the aid officer to immediately establish the exact BEOG stipend. The student could then be notified of his total aid package and the confusion and administrative complications of subsequent revisions avoided.

Although the thoughts expressed here are my own, I have visited with each of the aid officers at the public institutions within North Dakota and I can report that, without exception, they anticipate major problems in establishing Basic Grant amounts for 1974–75 because of the actual cost of attendance provisions of the "Payment Schedule." It is logical to assume that this situation will prevail at most, if not all, of the moderate cost public institutions throughout the country.

I am convinced that we are dealing with an administrative problem of major proportions requiring prompt corrective action. Your careful consideration of the thoughts I have presented here will be greatly appreciated.

Sincerely,

WAYNE K. TESMER,
Director.

CONNECTICUT ASSOCIATION OF STUDENT
FINANCIAL AID ADMINISTRATORS,
May 20, 1974.

Congressman JAMES G. O'HARA,
*Rayburn House Office Building,
Washington, D.C.*

DEAR CONGRESSMAN O'HARA: As part of the overall review of Student Financial Aid programs, the members of the Connecticut Association of Student Financial Aid Officers respectfully request that particular attention be paid to the operational results of program rulings made in Washington. The Basic Educational Opportunity Grant program is a striking example of this type of problem. I am enclosing for your information a resolution prepared for the Eastern Association of Student Financial Aid Administrators annual meeting at Hyannis on 5–7 May. Because so many public institutions could not afford the luxury of delayed payments, the resolution did not leave the Executive Council.

Your assistance in correcting this type of problem will be greatly appreciated.

Sincerely yours,

P. JEROME CUNNINGHAM,
President.

Enclosure.

BEOG RESOLUTION

Whereas USOE's BOG Program Directors have refused to recognize the difference between a direct grant and a college administered grant and

Whereas the USOE BOG Program Directors have further refused to admit to the increase in administrative duties associated with determining size of grant, requesting payment, distributing funds and reporting these activities:

Therefore, be it Resolved, That EASFAA urge its members to utilize the alternate method of payment and send each and every Student Eligibility Report to the BEOG office in Washington for payment of the Basic Grant.

FERGUS FALLS COMMUNITY COLLEGE,
Fergus Falls, Minn., March 1, 1974.

Hon. JAMES G. O'HARA,
*Chairman, Special Subcommittee on Education,
U.S. House of Representatives, Washington, D.C.*

DEAR SIR: I would like to express my opposition to the current move to abandon all the federal financial aid programs that are and have been working very well. To substitute the Basic Opportunity Grants and the Federally Insured Loans for the college-based programs is unwise and there are several reasons why.

These college-based programs have been tried and they are efficient. Over the years there have been some problems but they have largely been worked out. Basically, if all these college-based programs were forward-funded in adequate amounts, there would not be a student who would have to quit for lack of funds.

By centralizing the awarding of funds such as is the situation with Basic Grants, everyone gets treated as an application rather than as a real-live applicant. This is apparent in several ways right now. The fact that all social security benefits are treated as being available to the student is an example. In many cases these benefits should be treated as family income and the family contribution based on this total family income. Because the funds are somewhat limited, the decision was made to limit awards to $452 and there are other varying amounts like: $91, $217, etc. No financial aid officer would ever award in that manner. It would always be rounded to the nearest $25 and several awards such as $50 or $75 are not awarded. This seems like a small point, but if you have 100,000 Basic Grants recipients getting $452 instead of $450, there would be $200,000 that is basically over-awarded.

In the case of such small awards such as $50 or $70, there is probably no real reason to make such an award. It would not mean the difference between coming or not-coming to school. It is only extra money and in mnay cases, not really needed. If this same money was handled by the individual college financial aid people, it would be used in such a way to provide the needed funds for college attendance.

If funds are directed away from the colleges, there eventually will be much fewer financial aid officers because most public institutions cannot justify a financial aid person to administer the other funds they have. If this happens, students will not receive help in applying for funds and the information system will break down completely. This, of course, will mean that more people will be hired at the federal level to fill this void. Already we see this happening with the Federally Insured Loan Programs. Because defaults are so high, the Office of Education is asking for funds to hire some 250 people to better administer this program.

It is obvious that the Federally Insured Loan Program is going to be more costly than the college-based loan programs. As you know, the default rate is much, much lower in the N.D.S.L. program.

We can see in the first year of operation that the Basic Grants Program is far from effective. There hasn't even been the expected number of applicants and college financial aid officers have been advertising it as has the Office of Education. The fact that it is a new program and that it was funded late can account for some of this but not all. Students are more prone to apply for aid at the college. Even though we try to encourage them to try for a Basic Grant they often do not follow through.

In short, it is my opinion that the college based programs of federal financial aids are far more responsive to individual needs, less costly in the long run, more efficient and potentially more beneficial to society than either the Federally Insured Loan Program or Basic Opportunity Grants. Why discard programs that are working in favor of programs that do not offer any advantages over them?

I am also sending a copy of this letter to my own Congressman, the Honorable Robert Bergland.

Sincerely yours,

ALLEN L. WALKER.

UNIVERSITY OF COLORADO,
Boulder, Colo., May 9, 1974.

Congressman JAMES G. O'HARA,
Chairman, Committee on Education and Labor, Special Subcommittee on Education, Washington, D.C.

DEAR MR. O'HARA: We are experiencing a situation wherein some of our most needy independent students may not qualify for a Basic Educational Opportunity Grant during the first and possibly the second year of their college education.

Student eligibility for the B.E.O.G. during an academic year is based upon their income for the prior calendar year. Therefore, a student entering school in the Fall of 1974 would have his or her eligibility determined based upon the total income for 1973. In most cases, if a student earned enough to survive, this income level will be too high for B.E.O.G. eligibility. Since the student will be working for nine months of 1974 (prior to entering school) chances of his or her receiving a substantial grant for the 1975–76 academic year (which will be based on 1974 income) are also slim. It must be remembered that in order to attend school, the student must quit his job and that the income level on which the grant eligibility is determined will not exist during the period of the grant.

The method of using a prior calendar year income base works well when analyzing the contribution ability of the parents of dependent students. Normally, the income of parents will remain the same or increase slightly from year to year and surveys show that income estimates tend to be overstated by the poor and understated by upper-income families. It is not a valid method of analyzing the ability of beginning independent students, however, since the fact of full-time attendance precludes the maintenance of the prior year's income level.

The following is the case of a young lady who will be entering the Migrant Action Program next year. This is just an example of many cases that I have come in contact with in the last few days. Mary Ellen Montoya is 26 years old, divorced and has one child. Her ex-husband is in San Quentin. Her taxable gross income is $6,489, she has no other assets and she holds two jobs to support herself and her child. She was not granted any B.E.O.G. for the academic school year of 1974–75.

We will appreciate your consideration of this problem and any assistance you can give in helping to solve it.

Sincerely,

RICARDO V. MARTINEZ,
Director, Migrant Action Program—EOP.
WILLIAM PITTS,
Director, Black Education Program—EOP.
JOE FRANCO,
Director, United Mexican-American Students—EOP.
STUART TAKEUCHI,
Director, Asian-American—EOP.
CHARLES LOHAH,
Director, Indian—EOP.

THE COMMONWEALTH OF MASSACHUSETTS,
NORTHERN ESSEX COMMUNITY COLLEGE,
Haverhill, May 9, 1974.

Hon. JAMES O'HARA,
Chairman of the House Special Subcommittee on Education,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: Since you are interested in hearing from the financial aid community regarding possible financial aid legislation, I would like to take this opportunity to write you some thoughts I have had on the question.

As I consider the possible forms financial aid would take, it seems that with an unlimited supply of money, almost any set of programs could suit the needs of our students. But the political reality of limited funding means our first task is to set our priorities by examining the issues in financial aid.

In order to determine the direction of student financial aid, one must determine not only the federal government's role in providing educational access but also whether or not the government considers student choice an important issue. If we are interested only in insuring that every 18 year old high school graduate student has a place in higher education, then funding only the Basic Grant Program, the College Work Study Program and the Guaranteed Insured Loan Program as they now exist is sufficient. However, if choice is considered equally important and if the non-traditional student is to be adequately funded, then the college financial aid officer needs either the flexibility and the diversity offered by the Supplementary Educational Opportunity Grant Program and the National Direct Student Loan Program or a Basic Grant Program which is much broader in scope then the present program. If student choice is not considered important, the consequence will be that we will develop two parallel systems of post-secondary education.

The segments of the private sector which survive will educate an elite population while the public sector will be responsible for the rest of the students. These two separate but clearly unequal educationally systems will be no improvement on the situation which existed in higher education prior to the federal commitment to help needy students finance their college education. In this context, I would urge the Congress to support full-funding of Basic Grants only after the other programs have been funded.

The biggest problem which our students have with the Guaranteed Insured Student Loan Program is the unavailability of loans from the local banks. Many banks require that applicants have accounts in their institution or they refuse to lend to freshmen. In addition, the kinds of students who are aided by the National Direct Student Loan Program are not considered good risks by the banking community. While the interest subsidy is not the deciding factor for students choosing this form of aid, the banks would be even less enthusiastic about participation in the program than they are now. Even if the federal government could exert pressure on banks which encouraged them to make the loans (perhaps by increasing their subsidy payments), we would have no guarantee that low income students would benefit from the program. In my opinion with the implementation of the 15/20 proposal, the problems with this particular program are not at the federal level nor are they the kinds of problems which new legislation can correct.

In order for the Basic Grant Program to satisfactorily take the place of the Supplemental Educational Opportunity Grant it would have to incorporate the positive aspects of entitlement as well as the flexibility of the college based programs. As long as the Basic Grant Program treats every student by means of a restrictive equation there will be some students who are ineligible and we would need Supplemental Educational Opportunity Grants and National Direct Student Loans to help these students. Perhaps if the equation were less restrictive there would be fewer needy students unaided but the problem of providing choice could not be solved unless the Basic Grant provided a maximum of half the cost of education without the current $1,400.00 cut-off. In addition to helping solve the problem of choice raising the $1,400.00 cut-off would mean the Basic Grant would begin to help middle income students as well as lower income families.

Another question which must be answered is whether an 18 year old majority affects our premise that the first responsibility for education goes to a student's parents. If we decide that the government will shoulder this responsibility, the cost would be prohibitive. However, my main objection to a "civilian G.I. bill" is that our first concern must be to provide at least access and hopefully choice as well to the student who needs the money the most. In 1969 and 1971 the Board of Education in Massachusetts contracted for a study to determine the extent that financial barriers influenced a student's choice to attend college. Not only was there a high correlation between SAT's scores and family income but in every category of SAT scores fewer low income students went on to college. Low income students who scored above 600 in the SAT's were less likely to be in college than students from the highest income quartile who scored below 400. My point is that students without need appear to be entering college now while some of our highest achieving low income students still are not. We must first be assured that we have filled this need before we can begin aiding students with no need. My arguments against Merit Scholarships are the same ones expressed against a "civilian G.I. bill."

In the realm of financial aid we can not be satisfied until we can be sure that every student has a chance to pursue the post-secondary education of his choice.

Sincerely,

SUSAN A. HOROWITZ,
Director, Student Financial Aid.

UNIVERSITY OF MINNESOTA,
Minneapolis, Minn., April 19, 1974.

Congressman DONALD FRASER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN FRASER: I wanted to take this opportunity to convey a few thoughts about the field of student financial aid. For approximately the last three years there have been attempts by the current administration to eliminate some of the current student financial aid programs. In the higher education amendments of 1972 a new financial aid program called the Basic

Grant Program was established. In addition, three older financial aid programs established in the 1960's (namely, the College Work-Study Program, the National Direct Student Loan Program, and the Supplementary Educational Opportunity Grant Program) were continued with some amendments. Both prior to the passage of the amendments and since, the administration has attempted to fund primarily the Basic Grant Program at the expense of the older financial-aid programs. The amendments specified that the SEOG, CWS, and NDSL programs be funded at a base level before any new funds be put into the Basic Grant Program. The National Association of Student Financial Aid Administrators has strongly supported the establishment of the Basic Grant Program, but has always wanted to continue funding the older, more established programs also as was designated in the amendments of 1972. Both for 1973 and in 1974 the administration has requested that the NDSL and SEOG programs be phased out and the funding be put in the Basic Grant Program. Fortunately, Congress has not allowed this to happen and has provided funding for all four of the programs. The Basic Grant Program is still, however, not fully funded. Only freshmen and sophomores will be eligible to apply next year.

The financial aid community has appreciated additional funding made available in the Basic Grant Program and would certainly like to see it continued, but not at the expense of the other programs. We believe that the older, established programs which are college based have certain values which can never be replaced through the Basic Grant Program. The Basic Grant Program can never be the sole program of student financial aid, since, we believe, it is more appropriate to establish students' financial need on a local rather than a national basis.

This year the Office of Education is attempting very strenuously to expand the Basic Grant Program to all eligible freshmen and sophomore students. The financial aid community is assisting in this desire by conducting over 500 high school counselor training sessions across the country. Those training sessions in Minnesota will be held during the next two weeks. We believe the Basic Grant Program will be very beneficial in meeting students' increased needs, but only as it is combined with other forms of federal, state, and institutional aid as determined by the students' individual institutions.

The second area of concern to financial aid officers and particularly to those in large, public institutions is with the Health Professions Scholarship and Loan programs. The costs charged to each student obtaining a four-year professional education in our schools of Pharmacy, Dentistry, Veterinary Medicine, Medicine, and Nursing have risen to the point where they are approaching the $20–25,000 range. At the present time many of our students in need who are in one of these health professions programs are borrowing very extensively. It is not at all uncommon to encounter debt loads of $10–15,000 or higher. Certainly it can be assumed that many of these professional school students will have good jobs and will be able to pay off their debts. However, some of these students wish to go into public service or perhaps will encounter other debts in establishing their practices. There is an increasing concern on the part of our loan collections officials regarding the very high level of indebtedness these students are obtaining.

The administration again seems interested primarily in phasing out the federal Health Professions loan and scholarship programs which have operated for students in these fields since the mid-1960's, and instead in placing a greater reliance on loans from commercial lenders. This hardly seems appropriate given the rapidly escalating costs and the lack in availability in other funding. Financial aid officers in health professions schools would hope that both the federal grant and loan programs could be continued, at least one which could be designed to fund students from lower marginal backgrounds.

The final financial aid program which I wish to mention is the Federally Insured Student Loan Program. The Federally Insured Loan Program is again, I understand, about to be changed. The program has changed virtually once every year since its inception in 1966–67. In 1973 restrictions were added to the program. For 1974 Congress has passed a bill which again liberalizes the student eligibility criterion. This program, through which students borrow from commercial lenders or, as in the case of Minnesota, through the State, has been an extremely valuable one for University students. Some 6–10,000 students per year have participated in this program in recent years. We would certainly like to see this program continued. There are two areas of concern, however. The first is that the numerous changes in the program cause an extreme amount of confusion in the minds of students, parents, bankers, and financial aid officers each year. It would be advantageous to have the program stabilized. The second area of concern in this program as well as in the Basic Grant Program is that these programs are intended to be massive, federal student financial aid programs. In both instances the University and other colleges participating in the program spend extensive amounts of time assisting students applying for these programs. In contrast to the other programs of student financial aid (SEOG, NDSL, CWS), the institutions receive no reimbursement for these administrative expenses. There have been many attempts to make a provision whereby the institution would receive some minimal reimbursement such as ½ or 1 percent of dollars funded to students. Due to great confusion and oversight no allowance has ever been included in any of the legislation. We have requested and will continue to request such an inclusion in future legislation.

We appreciate your concern in this area. Obviously, student financial need will continue to grow in the foreseeable future. Any input that can be made to help meet these needs will be appreciated.

Sincerely,

SAMUEL R. LEWIS,
Director, Student Financial Aid.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 27, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
U.S. House of Representatives, Washington, D.C.

DEAR JIM: I recently undertook a survey to determine how the Federal Student Aid Programs were working out in the institutions of higher learning in Puerto Rico. I was particularly interested in how the new BEOG program was faring. A questionnaire was submitted to six colleges and universities in Puerto Rico, requesting detailed information regarding the number of students in the institution, the number receiving financial assistance, the total amout of money spent for student aid, the total amount of student assistance funds provided by the Federal government (plus a breakdown by individual programs: NDSL, SEOG, GSL, CWS, Cuban Loan, Veterans' Benefits (G.I. Bill, etc.), Nursing loans and scholarships; the amount received from foundations, and, finally, money from all other sources). With respect to the BEOG program, we asked for the dollar amount and the number of awards to date (12/31/73).

One of my main concerns was to ascertain the amount of need of Puerto Rican students, and how close the institutions of higher learning had come to meeting this demonstrated need through financial aid. The institution surveyed were:

—University of Puerto Rico
—Inter-American University
—Catholic University
—Puerto Rico Junior College
—College of the Sacred Heart
—Bayamón Central University

The situation where a student has the ability and desire to attend college but lacks the financial resources is frequent. Dropping out for financial considerations is equally common. Although the colleges and universities would like to accept more qualified students who lack the money to attend college, they can accept only a number commensurate with their limited resources.

In Bayamón Central University for instance, out of 1,000 students applying for student aid and who qualified for some type of assistance, only 452 enrolled, and aid could only be provided for 297. In the case of Inter-American University, a conservative estimate is that between 400–600 students do not enroll for the first time because of non-availability of financial aid. A study being conducted by Inter-American University strongly suggests that lack of financial aid is the principal reason for a relatively high drop-out rate of approximately 2,000 students per year. In Puerto Rico Junior College, 1,021 appplications were turned down because they required financial assistance beyond the institution's available resources. Out of these, 692 never made it to college. In addition, even if an institution grants a student assistance, in many instances it is not sufficient to cover the true need.

During the 1940's, I helped to forge a program of student assistance known in Puerto Rico as "Programa de Becas y Ayuda a Estudiantes". The program was given legislative assent by P.R. Law #226 of May 12, 1942. The appropriations for these student aid funds are governed by P.R. Law #64 of June 24, 1956, as amended by Art. 1 of P.R. Law #92 of June 21, 1966. There are currently 13,000 (estimated 1973–74) students at the University of Puerto Rico benefitting from these funds. The expenditure for the program at the University of Puerto Rico total $6,326,247. (1973–74). This program represents the backbone of financial support in the Commonwealth of Puerto Rico, and it represents our commitment to aid needy students so they can attain the goal of a higher education.

Yet although quite a large segment of the student population receives money from this program (i.e., in Inter-American University, out of 16,864 students, 12,000 receive some money from this fund), the amount an individual receives is very diluted, there being 90,000 students at the higher education level in Puerto Rico.

Federal support, although varying from 20% of all aid (Catholic University) to 90% (College of the Sacred Heart), is crucial to the very life of student assistance programs. This being the case, it is imperative that these Federal student aid programs become more responsive to the needs and conditions present in the higher education community in Puerto Rico.

Through the questionnaire,* I attempted to determine the extent of Federal involvement, how these funds were being utilized, problems encountered, suggestions, etc. I noted that in a recent survey of the top 100 institutions of higher education in the United States with respect to Federal support, the University of Puerto Rico was not one of them. This is both an unfortunate and anomalous situation for a state university serving close to three million people.

Although all Federal student aid programs in Puerto Rico are considered to be effective means to meet the need, there is a feeling that any move towards concentrating the Federal emphasis on loans and work-study would greatly undermine the task of adequately meeting the demand for student assistance funds. In Puerto Rico, many students work part-time in order to contribute to their family income. An emphasis on loans and work-study would place a hardship on the students from low-income brackets whose family partially depend on the student's earnings.

Several specific recommendations were made with regard to various aspects of the student aid program:

(A) It is felt that having a universal way of determining need for all Federal student aid programs is desirable, in that it not only eliminates red-tape for the Federal government, but also facilitates the task of the financial aid officer and the student, who are now burdened by paper-work.

(B) Particular emphasis was placed on the discontent with the new "1974–75 Instructions for Student Financial Aid Programs," specifically with the provision that an institution must utilize $800 or 40% of average cost, whichever is greater, as a self-help expectation. It disregards both the differences of students in realizing self-help resources and in the institution's ability to provide self-help resources.

(C) Complaints were voiced with regard to the responsiveness and treatment given the institutions of higher learning in Puerto Rico by the Office of Education, Region II, New York, particularly in the area of student assistance. They feel that their individual problems are not adequately resolved, and indeed there is a lack of understanding with respect to these problems.

(D) With respect to the BEOG (Basic Educational Opportunity Grants) Program, several issues were raised:

(1) The BEOG Application requires a certification to legally guarantee the reliability of information provided by the student. In Puerto Rico, only lawyers can be notary publics, which presents a problem, because the fee charged to the student can indeed be burdensome and serves as a deterrent to the potential applicant. This matter has been pointed out to the officials at the Office of Education, and several possible solutions have been suggested. Perhaps one individual within the University can act as a certifying officer (preferably someone with a legal background). But to date, no equitable solution to this problam has been reached. There is also a feeling that in the future, students already enrolled and whose financial need and eligibility have been established, should not be required to furnish a notary public's certification.

(2) The question of having a BEOG application in Spanish was raised. I have attempted to secure this application since February of last year, when I raised the issue with Commissioner Ottina. Although some progress has been made by O.E. in translating and adapting the BEOG material (and I have reservations about its quality), the application itself has yet to be produced. I trust that Commissioner Ottina will provide us with BEOG application in Spanish, to be used during the coming academic year, as he agreed to in his presentation before the Subcommittee last month.

(3) Another issue which might seem obvious, if not trivial, is that the application blanks, as well as all correspondence with the colleges and universities in Puerto Rico should be air-mailed, in order to insure a timely consideration. Delay in transit can only serve as a further hampering of the program's success.

(4) There seems to be a problem of timing, which is perhaps due to the fact that the BEOG program was new last year. The procedure a student and financial aid officer must go through entails a period of time which is burdensome in that a student aid package must be prepared by pooling resources from various programs, and in many instances the delay in the process means that the BEOG Program was discarded as a possibility of funding. The package must be prepared prior to registration (which in Puerto Rico's case is in *August*).

(5) With respect to funding, the concensus is that we should move in the direction of full funding of the BEOG program, without curtailing or eliminating the task accomplished by the other Federal Student Aid Programs.

(6) Aside from the general consensus that the average award was extremely low in comparison with the cost of attending the institution, it was pointed out that the provisions dealing with how veterans and social security benefits are to be construed in determining a student's need should be revised.

I trust that this information is useful to you and to the Subcommittee, and I further hope that we can work together to make these programs more responsive to the needs and conditions present in Puerto Rico. We must be certain that the best utilization is made of these programs, and this can be accomplished in part by heeding the advice and concerns raised by the institutions which benefit from these programs. The gap which separates the need in Puerto Rico and the actual resources available for financial assistance is great. It is a still sadder situation when a student has to abandon a college or university once he has commenced his studies, simply because of financial considerations. Let us try to remedy this situation.

Cordially,

JAIME BENITEZ.

Enclosures.

ADDENDUM

STUDENT AID IN PUERTO RICO INSTITUTIONS OF HIGHER LEARNING

Institution	Number of students	Number receiving aid	Total in aid	Total Federal aid	NDSL	SEOG	GSL	CWS	Cuban loan	Veterans (GI bill, etc.)	Nursing loans and scholarships	Foundation	All Other sources	BEOG to date (Dec. 31, 1973)	
														Number of awards	Amount
University of Puerto Rico	47,533	17,300	$7,000,000	[1] $5,478,289	$342,000	$858,505	$2,300,000	$1,600,000	$100,784	$198,000	$80,000	NA	$6,326,247	NA	$190,480
Inter American University	16,864	3,440	6,245,633	3,402,902	785,071	892,976	1,200,000	480,000	----------	[2] 4,250,000	----------	$22,225	2,820,406	81	16,092
Catholic University (Ponce)	8,400	4,130	5,035,080	1,286,090	900,000	264,677	1,323,000	248,179	3,000	150,000	97,315	5,000	[3] 389,020	194	40,060
Puerto Rico Junior College	6,300	2,584	1,639,678	903,890	156,433	79,795	441,892	99,106	----------	20,398	69,134	1,500	1,171,670	206	36,435
College of the Sacred Heart	2,002	720	323,431	307,785	153,000	42,693	104,200	60,000	35,000	7,875	9,217	2,500	216,731	10	6,510
Bayamon Central University	1,111	[4] 297	313,418	271,943	70,809	103,184	127,000	86,000	----------	29,000	----------	----------	41,475	60	11,500

[1] Includes $2,300,000 in federally insured loans, and $198,000 in GI bill.

[2] 2,835 veterans.

[3] Puerto Rico Government scholarships.

[4] Excluding GI bill and guaranteed loans.

1. Name of institution------------------------
2. Official in charge of student aid------------------------
3. Address------------------------
4. Telephone number------------------------
5. Number of students in the institution------------------------
6. Number of students receiving financial aid------------------------
7. Total dollars in student aid (from all sources)------------------------
8. Total dollars in student aid (Federal programs)------------------------
9. How much money was received in fiscal 1973 for:
    - (A) National direct student loans (NDSL)------------------------
    - (B) Supplemental educational opportunity grants (SEOG)------------------------
    - (C) Guaranteed student loans------------------------
    - (D) College work study------------------------
    - (E) Cuban loan program------------------------
    - (F) Veterans (G.I. bill, et cetera)------------------------
    - (G) Nursing student loans and scholarships------------------------
    - (H) Foundations (Ford, et cetera)------------------------
    - (I) All other sources: (Local state funds, university funds, et cetera)------------------------
10. How much money has been received to date for the basic educational opportunity grants? (BEOG's)------------------------ Number of awards------------------------
11. What problems, if any, have you encountered regarding the BEOG program?
12. Comment on the BEOG program (effectiveness, suggestions, et cetera)------------------------
13. Comments regarding other Federal student aid programs—effectiveness, ways of improving the programs, complaints, et cetera (use extra sheets if necessary):
14. Have you encountered any problems regarding reliability of information supplied by the students in the student loan applications?------------------------
15. Are you aware of instances where students who normally would have attended your institution, did not because of financial reasons, (nonavailability of financial assistance)? Are there many such instances?------------------------
16. *General comments:* (ways in which we and the Education and Labor Committee can help)------------------------

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS,
DEPARTMENT OF EDUCATION,
Providence, R.I., May 16, 1974.

Hon. JAMES G. O'HARA,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: The Rhode Island Board of Regents for Education has designated the issue of financial assistance to students of postsecondary education a high priority for Board review and Department of Education study. It is for this reason that the concerns of the Special House Subcommittee on Education for Student Aid have been of special interest to me and my staff.

The questions being addressed by Rhode Island Education Officials have been and will undoubtedly continue to run parallel to those of the members of the Special House Subcommittee.

Attached herewith are three recently published documents which represent the efforts of Dr. Clyde R. Ingle and Mr. John P. Mandryk from the Department's Office of Postsecondary Planning; their works assess the financial need of Rhode Island citizens for postsecondary education and pose the critical questions of who, where, and for what purpose financial assistance should be available.

I would like to call your attention to page 2 of the Summary Document (Enclosure #1) which estimates the relative rate of "Attendance to Eligibility" for traditional postsecondary education students who are dependent on their families by annual family income. As you will note, the Attendance/Eligibility rates are lower (44 percent) for students from families with income below $4,000 than for students from families with income above $6,000 (their rate is 68 percent). You will also notice that the lowest Attendance/Eligibility rates (26 percent) are held by students from families with income from $4,000 to $6,000.

Studies are presently being planned to determine how best to ensure equal educational opportunity through financial assistance for all income groups.

That is, we will attempt to determine what type of financial assistance package will be taken advantage of and the extent to which certain packages will increase Attendance/Eligiblity rates for the lowest income groups.

It is my hope that this information may assist your efforts in considering the issue of financial assistance.

Sincerely yours,

FRED G. BURKE,
Commissioner of Education.

Enclosures.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS,
DEPARTMENT OF EDUCATION,
Providence, R.I., April 18, 1974.

To: Board of Regents.
From: Fred G. Burke, Commissioner.
Subject: A summary of: Financial Assistance for Postsecondary Education, Working Note #3, "The Financial Need of Rhode Island Citizen Students Attending Postsecondary Education: The Present Circumstance".

Attached hereto is a summary of a comprehensive report entitled: "Financial Assistance for Postsecondary Education, Working Note #3, The Financial Need of Rhode Island Citizen Students Attending Postsecondary Education: The Present Circumstance." This report has been hole punched and should be incorporated into the previously supplied notebook for matters relating to financial assistance for postsecondary education.

This report is submitted as an information item, which may address questions of the Regents as they decide what policy principles should serve as a base for financial assistance programs.

A SUMMARY OF FINANCIAL ASSISTANCE FOR POSTSECONDARY EDUCATION

WORKING NOTE NO. 3

INTRODUCTION

The information presented in this summary is from a more detailed working paper entitled:

FINANCIAL ASSISTANCE FOR POSTSECONDARY EDUCATION

WORKING NOTE NO. 3

It is anticipated that the complete report will be placed before the Board of Regents shortly.

The data provided in this summary is tentative and subject to change as the educational behavior of Rhode Island citizens, their economic status, and the cost of education adjust to evolving conditions. It should be emphasized that the techniques employed in the complete analysis are based on statistical designs which attempt to adjust the most recent accurate data to reflect what appears to be the present circumstances; therefore, all data should be regarded as estimates rather than definite observations.

As the complete analysis proceeds from looking at the total Rhode Island population, to those eligible to pursue postsecondary education, to those actually attending, various insights into the nature of the postsecondary population comprised of Rhode Island citizens will emerge. These insights and the estimates which this analysis will provide will serve as a factual base from which policy makers may debate the appropriate financial assistance packge for Rhode Island.

Two caveats are appropriate here: These data refer primarily to the traditional college goer and the undergraduate student of education at this stage in the analysis.

TABLE I.—HOW MANY RHODE ISLANDERS ARE ELIGIBLE FOR TRADITIONAL POSTSECONDARY EDUCATION?

	Age—				
	Total	18 to 24	25 to 34	35 to 54	55 and older
Number of citizens	667,600	125,000	127,000	212,600	203,000
Number of eligible citizens	275,200	72,900	66,900	88,600	46,900
Percent of eligibles to citizens	41	58	53	42	23

Note: Table I estimates that 41 percent of Rhode Island citizens over 18 yr old are eligible to attend traditional undergraduate postsecondary education. From this, one can speculate that the greatest number of potential attenders would be from the 35- to 54-yr-old group.

TABLE II.—HOW MANY RHODE ISLANDERS ARE ATTENDING TRADITIONAL FORMS OF POSTSECONDARY EDUCATION?

	Age—				
	Total	18 to 24	25 to 34	35 to 54	55 and older
Part time:					
In State	16,619	7,091	5,819	2,593	1,116
Out of State	8,256	4,328	1,361	487	11
Total	22,806	11,419	7,180	3,080	1,127
Full time:					
In State	19,712	15,375	3,942	696	42
Out of State	6,897	5,733	605	213	3
Total	26,609	21,100	4,547	909	45
Total	49,415	32,525	11,727	3,989	1,172

Note: Table II estimates that over 49,000 Rhode Island citizens attend traditional postsecondary education on some basis. From inspection, we can see that the greatest number of attenders belong to the 18- to 24-yr-old category.

TABLE III.—WHAT IS THE RELATIONSHIP BETWEEN ACTUAL ATTENDANCE AND ELIGIBILITY?

	Age—				
	Total	18 to 24	25 to 34	35 to 54	55 and older
Number of eligibles	275,200	72,900	66,900	88,600	46,900
Number of attenders	49,400	32,500	11,700	4,000	1,000
Percent of attenders to eligibles	18	45	18	5	3

Note: Table III estimates that the attendance/eligibility rate for the Rhode Island citizen population over 18 yrs. old is approximately 18 percent. While the highest rate of attendance is expected among the 18- to 24-yr-olds, it is noteworthy that the other age categories experience significant rates.

TABLE IV.—WHAT IS THE RELATIONSHIP BETWEEN FAMILY INCOME, ELIGIBILITY, AND FULL-TIME ATTENDANCE?

Family income	Number of eligible 18- to 24-yr-old single dependents	Number of full-time 18- to 24-year-old single dependents	Number of eligibles to full-time attenders (percent)
Under $4,000	3,150	1,400	44
$4,000 to $4,999	1,100	300	26
$5,000 to $5,999	1,600	400	26
$6,000 to $6,999	1,850	1,300	69
$7,000 to $7,999	2,250	1,500	68
$8,000 to $9,999	5,300	3,600	68
$10,000 to $14,999	10,400	7,100	69
$15,000 to $24,999	6,000	4,900	66
$25,000 and over	2,250	1,500	68
Total	33,850	19,700	58

*All figures have been rounded to the nearest 50. 1969 family income has been used to facilitate analysis by inspection. Family income has increased approximately 28 percent since the 1969 census collection to September 1973.

Note: Table IV shows a comparison between eligibility and full-time attendance by family income for those 18- to 24-yr-olds who are dependent upon family support. This group of students represent 75 percent of the total number of Rhode Island citizens who are attending traditional postsecondary education on a full-time basis. From inspection, one can determine that the lowest eligibility/attendance rates are held by students who belong to families with annual income between $4,000 and $5,999.

TABLE V.—HOW MANY ADDITIONAL ATTENDERS WOULD THERE BE FROM THE 18 TO 24 GROUP IF INCREASED FINANCIAL ASSISTANCE INCREASED THE ATTENDANCE OF THE LOWEST ATTENDING GROUPS TO SUBSTANTIALLY HIGHER HYPOTHETICAL ATTENDANCE/ELIGIBILITY RATES?

Family status	Bringing the lowest attendance/eligibility percentage rates up to—	The resultant increase in full-time attenders would be—	Present full-time attenders	Resultant total full-time attenders
Single:				
Dependent		3, 350	19, 675	23, 000
Independent	68	13, 025	750	13, 775
Married:				
Spouse present		10, 025	500	10, 525
Spouse absent		1, 875	175	2, [illegible]
Total		28, 250	21, 100	49, 375
Single:				
Dependent		1, 625	19, 675	19, 675
Independent	50	9, 375	750	10, 125
Married:				
Spouse present		7, 225	500	7, 725
Spouse absent		1, 325	200	1, 500
Total		19, 550	21, 100	39, 050
Single:				
Dependent		(1)	19, 675	19, 675
Independent	25	4, 300	750	5, 075
Married:				
Spouse present		3, 375	500	3, 875
Spouse absent		575	175	750
Total		8, 250	21, 100	29, 350

(1) No increase.

Note: Table V should be employed as a "what if" device for useful reference to the policymakers. Here we can see that if all 18- to 24-year-olds attended at a rate of 68 percent (that presently maintained by students from families with the highest incomes), then there would be an additional 28,250 students of postsecondary education between the ages of 18 and 24 years old. One can only speculate as to what changes in educational behavior would result given increased forms of financial assistance with the proper guidance and counseling.

VI. What is financial need?

TABLE VI—FINANCIAL NEED—(COST OF EDUCATION)—("EXPECTED" FAMILY/STUDENT CONTRIBUTION)

College Scholarship Service of the College Entrance Examination Board has over the years developed and implemented a method for determining the financial need of individual students of postsecondary education. Simply stated: Financial need is that amount of money charged to a student for educational costs which is above what the student and the family combined can theoretically be expected to contribute to the cost of a student's education.

The "expected" combined family/student contribution varies depending on the student's (a) family status, (b) family and/or individual income and assets and (c) the number of dependent children or brothers and sisters of the student.

VII. What does it cost for a student to go to college today?

TABLE VII

	Average institutional—		Average other expenses [1]
	Tuition and fees	Room and board	
Rhode Island public institutions	$540	$1, 160	$625
Rhode Island private institutions	1, 970	1, 200	625
Other Northeast States	1, 865	1, 500	625

[1] Other expenses include books and supplies, transportation, personal expenses.

Note: Estimating the distribution of institutional attendance of Rhode Island students at Rhode Island institutions, it is estimated that the weighted per-student annual costs are approximately $2,850 for Rhode Islanders attending Rhode Island postsecondary institutions full time.

TABLE VIII.—WHAT WOULD BE THE FINANCIAL NEED OF THOSE 18- TO 24-YR-OLD STUDENTS WHO ARE PRESENTLY ELIGIBLE BUT NOT PRESENTLY ATTENDING SHOULD THEY ATTEND AT A 68-PERCENT ATTENDANCE/ELIGIBILITY RATE (THAT PRESENTLY MAINTAINED BY THE STUDENTS BELONGING TO FAMILIES WITH THE HIGHEST INCOME)?

Family status	Number of resultant attenders	Financial need of resultant attenders
At an estimated cost of $3,000:		
Single: Dependent	3,350	$7,440,350
Single: Independent	13,025	24,747,500
Married: Spouse present	10,025	18,987,350
Married: Spouse absent	1,875	2,323,125
Total	28,250	53,498,300
At an estimated cost of $2,000:		
Single: Dependent	3,350	4,090,350
Single: Independent	13,025	11,722,500
Married: Spouse present	10,025	8,962,350
Married: Spouse absent	1,875	448,125
Total	28,250	25,223,325
At an estimated cost of $1,000:		
Single: Dependent	3,350	740,350
Single: Independent	13,025	0
Married: Spouse present	10,025	0
Married: Spouse absent	1,875	0
Total	28,250	740,350

Note: Table VIII shows what the financial need of the resultant attenders would be if they incurred educational costs per year of $3,000, $2,000, or $1 000. This financial need is based upon the hypothetical situation that sufficient financial assistance would increase the attendance/eligibility rates of all 18- to 24-yr-olds to that rate presently maintained by independent students with the highest family incomes.

TABLE IX.—WHAT IS THE FINANCIAL NEED OF THOSE 18- TO 24-YR-OLD RHODE ISLAND CITIZENS WHO ARE PRESENTLY ATTENDING RHODE ISLAND INSTITUTIONS ON A FULL-TIME BASIS?

Family status	Group costs	Expected group contributions	Group financial need
Single: Dependent	$40,399,000	$31,362,300	$9,036,700
Single: Independent	1,704,000	839,900	864,100
Married: Spouse present	1,136,000	550,800	585,200
Married: Spouse absent	426,000	320,400	105,600
Total	43,665,000	33,073,500	10,591,600

Note: Table IX shows that those 18- to 24-yr-old Rhode Island citizens who are attending Rhode Island institutions on a full-time basis (approximately 58 percent of all Rhode Islanders attending full time anywhere) generate a financial need of $10,591,600 as a group.

TABLE X.—*How does this group meet their financial need?*

Financial need	$10,600,000
Financial aid	6,980,000
Guaranteed student loans	1,600,000
Other means (unmet need)	2,020,000

Guaranteed Student Loans—Students borrow for two reasons:

(1) To meet financial need; and

(2) In lieu of the expected parental contribution which though assessed in need analysis is not, in fact, forthcoming from the parents.

Other Means:

We are not certain as to how students meet this unmet financial need through other means.

It appears to come in part from student and family sacrifices (i.e., a reduced standard of living), gifts from relatives and friends, personal loans, and increased part time employment over and above that which is reported.

"Financial Need for Students of Rhode Island Postsecondary Education: The Present Circumstance"

INTRODUCTION

Any review of financial assistance must have, as a base, an estimate of two specific kinds of financial need:

(1) The financial need of those students who are eligible for postsecondary education but not presently enrolled due to severe financial hardship; and

(2) The unmet financial needs of those students who are presently attending postsecondary education.

The purpose of this study is to treat both of these financial need dimensions for Rhode Island citizens who are potentially or presently students of traditional postsecondary education.

The data and conclusions presented in this document are tentative and subject to change as the educational behavior of Rhode Island citizens, their economic status, and the cost of education are adjusted to evolving conditions.

It should be emphasized that the techniques employed to develop the present picture of financial need are based on statistical methods which attempt to adjust the most recent, accurate data to accommodate identified trends and fluctuations which have occurred since the publication of various statistical or profile reports. It should be stressed, therefore, that the information supplied in this document should be regarded as estimates rather than definite observations of the present situation.

As this analysis proceeds from looking at the total Rhode Island population, to those eligible to pursue postsecondary education, to those actually attending, various insights into the nature of the postsecondary population comprised of Rhode Island citizens will emerge. These insights and the estimates which this analysis will provide should serve as a factual base from which policymakers may debate the appropriate financial assistance package for Rhode Island.

Two caveats are appropriate here: this data refers primarily to the traditional college goer, and the undergraduate student of postsecondary education at this stage in the analysis.

SECTION I. THE RHODE ISLAND CITIZENS POPULATION

A. Rhode Islanders by age, eligibility, and attendance

Table I provides a review of the Rhode Island population by age categories, by eligibility for postsecondary education, and by actual attendance in some form of college as estimated for the 1973–74 academic year.

TABLE I.—A COMPARISON OF POPULATION, ELIGIBILITY AND ATTENDANCE FOR RHODE ISLAND CITIZENS BY AGE

[Estimated 1973–74]

	Total	18 to 24 yr	25 to 34 yr	35 to 54 yr	55 yr and older
Number of citizens	667, 600	125, 000	127, 000	212, 600	203, 000
Number of eligibles	275, 200	72, 900	66, 900	88, 600	46, 900
Percent of eligibles to citizens	41	58	53	42	23
Number of attenders	49, 400	32, 500	11, 700	4, 000	1, 000
Percent of attenders to citizens	7	26	9	2	1
Percent of attenders to eligibles	18	45	18	5	3

Note: All figures have been rounded to the nearest hundred.

Table I estimates that of all Rhode Island citizens over 18 years of age, 41% are eligible for participation in traditional collegiate postsecondary education. For our purposes, the eligibles are defined as anyone who has graduated from high school or holds an equivalency diploma and who has not completed four years of postsecondary education. This definition excludes those citizens who may desire some non-traditional postsecondary education, such as vocational training, but who do not hold a high school diploma (approximately 25% of the present 18–24 year old age group) and all those who have obtained a baccalaureate degree. It includes, on the other hand, all citizens who have a high school education, or equivalent, but have not been admitted to a postsecondary institution.

The number of eligibles is significant for this review because it represents the greatest potential number of applicants that could be expected for a student assistance program.

The overall attendance rate for eligibles during 1973–74 is estimated to be 18%. The highest rate, 45 percent, belongs to the 18–24 year old age category. While the highest rate of attendance naturally is expected among the traditional college age group, it is noteworthy that the 25–34 year old age category attends at a rate of 18% of eligibility with the 35–54 and 55 and over categories attending at rates of 5% and 3% respectively.

A critical policy question which emerges from this analysis is: if given the opportunity to attend postsecondary education through increased financial assistance, would Rhode Islanders take advantage of the assistance and if so would the present attendance/eligibility rates increase?

To answer this question, one must estimate the extent to which the present attendance rate is affected by financial conditions. Thus, this analysis will now consider the financial circumstances of Rhode Island citizens.

B. Rhode Islanders by income and family status

1. The 18–24 year old category:
    a. Family Status: Single: dependent upon family for support.

Table II shows the relationship between income condition, eligibility, and full time attendance for the 18–24 year old students who are dependent on their family for support. This group of students represents 74% of all Rhode Island citizens who are attending traditional postsecondary education on a full time basis.

TABLE II.—COMPARISON BETWEEN ELIGIBILITY AND FULL-TIME ATTENDANCE BY INCOME 1969[1] FOR SINGLE/DEPENDENT 18 TO 24 YEAR OLD CITIZENS

[Estimated 1973–74]

Family income	Number of eligible 18 to 24-year-olds	Number of full time attending 18 to 24-year-olds	Percent of eligibles to full-time attenders
Under $4,000	3,150	1,400	44
$4,000 to $4,999	1,100	300	26
$5,000 to $5,999	1,600	400	26
$6,000 to $6,999	1,850	1,300	69
$7,000 to $7,999	2,250	1,500	68
$8,000 to $9,999	5,300	3,600	68
$10,000 to $14,999	10,400	7,150	69
$15,000 to $24,999	6,000	4,900	66
$25,000 and over	2,250	1,500	68
Total	33,850	19,700	58

[1] 1969 family income has been used to facilitate analysis by inspection. Note, however, that subsequent sections adjust income to reflect September 1973 increased earnings.

Note: All figures have been rounded to the nearest 50.

From this comparison, some critical observations may be drawn about which family income groups are attending postsecondary education at rates significantly lower than other income groups.

It is logical to question whether the 26% attendance rates for the income categories of $4,000 to $6,000; compared to 44% for those under $4,000; and 68% for those over $6,000 is not related to financial condition rather than to other considerations.

Further, the 68% attendance rate for students dependent upon family support with family incomes between $6,000 to $10,000 is so similar to the attendance rate for those coming from families with incomes over $10,000 as to suggest that the relative burden on these lower income families might be significantly greater than that on families with incomes over $10,000.

Both observations raise serious policy questions:

1. Should policy-makers aim toward making possible an attendance rate for the single student dependent upon family income significantly higher than it presently is, for instance, attempting to bring the 44% attendance rate maintained by students from families with incomes under $4,000 toward the 68% attendance rate experienced by those from families with incomes over $6,000?

2. Should policy-makers consider the possible sacrifice presently being borne by families with incomes between $6,000 and $10,000 as unbearable and worthy of some form of increased state assistance?

These two questions relate to two policy principles which this analysis begins to address.

(a) The question of equal opportunity for all citizens to attend some form of postsecondary education (see Policy Recommendation No. 1, March 11, 1974).

(b) The question of the amount of Parent/Student Contribution over what is theoretically expected from them which middle and lower income families may be now experiencing by supporting members of their families in postsecondary education.

To this point, this analysis has concentrated upon the 18–24 year old single student who is dependent upon family support. We now turn our attention to the other 18–24 year old students.

b. Family Status:

i: Single/Independent from family support.
ii: Married/Spouse present.
iii: Married/Spouse about (i.e., widowed, divorced, separated, abandoned).

Income data relating to those 18–24 year old students whose family status is either single: independent, or married (approximately 5% of all full time attenders) is too minimal to construct reliable income profiles. Because of this, it is virtually impossible to make assumptions concerning how income affects their attendance.

It is of interest, however, to contrast the attendance/eligibility rates of these groups with the single students who are dependent upon family for support. This comparison is displayed below in Table III.

TABLE III.—COMPARISON OF ELIGIBILITY AND ATTENDANCE FOR THE 18 TO 24 YEAR OLD GROUP BY FAMILY STATUS

[Estimated 1973–74]

	Total	Single dependent	Single independent	Married spouse present	Married spouse absent
Number of eligibles	72, 900	33, 850	20, 275	15, 475	3, 000
Number of full-time attenders	21, 100	19, 675	775	500	175
Percent of attenders to eligibles	29	58	4	3	6

Note: All figures have been rounded to the nearest 25.

By inspection we can see that the estimated full time attendance rates for those 18–24 year olds who are single independent, and who are married are significantly lower than those students who are single and dependent upon family support. It is interesting to observe that the married spouse absent students attend at a somewhat higher rate than the married spouse present students. Table III raises the following questions:

Do students who remain dependent upon their families receive more encouragement to attend postsecondary education than those who are independent?

Do students who are independent of their families experience minimal encouragement and extreme financial hardship?

Are the 18–24 year old married/spouse absent citizens in need of greater postsecondary educational experience in order to accommodate the demands from a relatively new and unexpected financial/social condition?

One can only speculate as to what changes in educational behavior would result, given additional financial assistance and the proper guidance and counseling for the 18–24 year old group. Table IV shows the estimated increase of attenders should the attendance rate be increased to alternative minimums of 68%, 50% and 25%.

TABLE IV.—RESULTANT INCREASE IN FULL-TIME ATTENDANCE GIVEN SELECTED ATTENDANCE/ELIGIBILITY RATES FOR THE 18- TO 24-YEAR-OLD RHODE ISLAND CITIZENS

[Estimated 1973–74]

Family status	Bringing the lowest attendance/eligibility rates up to (percent)	The resultant increase in full-time attenders would be	Present full-time attenders	Resultant total full-time attenders
Single/dependent		3,350	19,675	23,000
Single/independent	68	13,025	750	13,775
Married/spouse present		10,025	500	10,525
Married/spouse absent		1,875	175	2,050
Total		28,250	21,100	49,375
Single/dependent		1,625	19,675	19,675
Single/independent	50	9,375	750	10,125
Married/spouse present		7,225	500	7,725
Married/spouse absent		1,325	200	1,500
Total		19,550	21,100	39,050
Single/dependent		(1)	19,675	19,675
Single/independent	25	4,300	750	5,075
Married/spouse present		3,375	500	3,875
Married/spouse absent		575	175	750
Total		8,250	21,100	29,350

[1] No increase.

From Table IV we can observe that if all 18–24 year old eligible students attended at the same rate as those dependent students who belong to families with the highest incomes (68%), then there would be an additional 49,375 attenders of traditional postsecondary education.

The probability of such a drastic immediate change in attendance/eligibility is very minimal due to such factors as:

Insufficient pre-college course work;
Inability to demonstrate competencies at a level required for college ad-
Extreme commitment to extra-education related matters; and
Little interest in education pursuit.

It is for this reason that we provide the additional attendance/eligibility rates of 50% and 25%. These rates should be regarded as "what if" devices for the policy maker as useful references; they are arbitrary selections and should not be regarded as estimates of changes in educational behavior resulting from financial assistance.

2. *The 25 to 34, 35 to 54, and the 55 or over age category*

Efforts to collect income data for those residents over the ages of 25 years old have not revealed the detailed data elements with the specificity essential to making estimates and assumptions concerning eligibility rates by income.

All that can be provided at this point is a comparison of the overall Attendance/Eligibility Rates of these groups.

TABLE V.—ATTENDANCE/ELIGIBILITY RATES FOR RHODE ISLANDERS OVER 25 YEARS OLD

[1973–74 estimated]

Age category	25 to 34	35 to 54	55 and over
Number of eligibles	66,900	88,600	46,900
Number of attenders	11,700	4,000	1,000
Percent of attenders to eligibles	18	5	3

It is noteworthy to observe that these age groupings do experience sizable Eligibility/Attendance Rates. To establish a number which would account for increases in attendance by these groups, given increased financial assistance, would be based on pure conjecture.

Summary

Who is not attending due to financial hardship?

In the absence of current surveys and polls of the Rhode Island population estimating who is not attending postsecondary education due to financial hardship is attempted through the use of theoretical statistical models to adjust most recent, accurate data to reflect today's situation. Considering what is known about who is attending, assumptions can be made about those not attending because of inability to pay.

The specificity of data required for making this estimate can be assembled only for those Rhode Island Citizens belonging to the 18–24 year old group who are dependent upon their family for support. This category constitutes 74% of all Rhode Island citizens attending postsecondary education anywhere on a full time basis.

The data will support the following propositions:

1. Those 18–24 year old students who are single/dependent on family for support, with family incomes over $6,000, have a somewhat stable fulltime attendance to eligibility rate of 68%.

2. Those 18–24 year old students who are single/dependent on family for support with family incomes between $4,000 to $6,000, have the lowest full time attendance rate of 26%.

3. Those 18–25 year old students who are single/dependent on family for support and with family incomes below $4,000 have a full time attendance rate of 44%.

4. If all 18–24 year old eligible students who are dependent upon their family for support attended full time at the same rate as those from the highest family income group, there would be an additional 2,000 Rhode Island citizen students of postsecondary education.

5. If the 18–24 year old single independent eligibles attended postsecondary education on a full time basis at the same rate as that presently maintained by the single students dependent upon family for support, there would be an additional 11,000 Rhode Island citizen students in postsecondary education.

SECTION II—ANNUAL COSTS TO STUDENTS ATTENDING TRADITIONAL INSTITUTIONS

A. Full-Time Tuition and Fees

1. *In-State costs.*—In-State tuition and fee costs to Rhode Island students.

For the 1973–74 academic year the Rhode Island Postsecondary education Institutions charged the following tuition and fee costs to full time Rhode Island Resident Students:

	Tuition and fees
Public:	
Rhode Island College	$495
Rhode Island Jr. College	340
University of Rhode Island	761
(Average: $532)	
Private:	
Barrington College	2,020
Brown University	3,250
Bryant College	1,800
Johnson and Wales College	1,671
Mount Saint Joseph College	1,400
Providence College	2,085
Rhode Island School of Design	2,675
Roger Williams College	1,630
Salve Regina College	2,000
Seminary of Our Lady of Providence	1,130
(Average: $1,966)	

Estimating the number of Rhode Island students enrolled full-time in the respective schools, it is determined that: *the full time Rhode Island student pays on the average $1,000 per year in tuition and fees;* this figure is a weighted per student tuition and fee charge to the student and not an average institutional tuition and fee charge and is used in this study for the purpose of determining the financial need of Rhode Islanders attending In-State Institutions.

2. *Out-of-State costs.*—We do not have data which clearly shows what institutions are attended by all Rhode Island students who choose to attend institutions outside of Rhode Island.

An indication of the approximate tuition and fee charge which Rhode Island students incur as a result of attending out-of-state institutions is the average tuition and fees charged to recipients of the Rhode Island State scholarship who attend out-of-state institutions. Their average tuition and fee charge is $1,865.

Thus, we might assume that on the average, all Rhode Island students who choose to attend out-of-state institutions on a full-time basis incur an approximate tuition and fee charge of $1,865.

B. Room and board

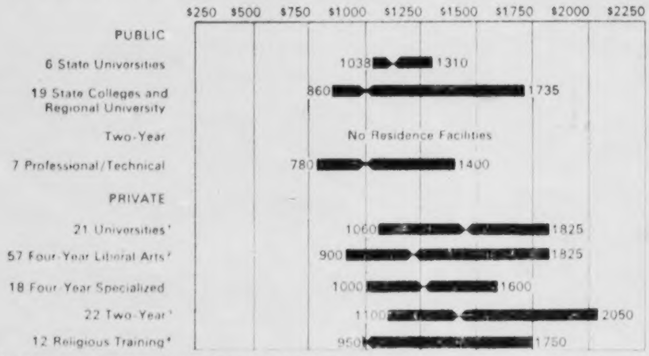
1. *In-State costs.*—For the 1973–74 academic year, the Rhode Island post-secondary institutions charged the following fees for Room and Board.

Public:	
Rhode Island College	$1, 115
Rhode Island Junior College	N/A
University of Rhode Island	1, 200
(Average: $1,158)	
Private:	
Barrington College	1, 120
Brown University	1, 450
Bryant College	1, 150
Johnson & Wales College	1, 200
Mount Saint Joseph College	1, 200
Providence College	1, 200
Rhode Island School of Design	1, 275
Roger Williams College	1, 325
Salve Regina College	1, 225
Seminary of Our Lady of Providence	900
(Average: $1,205)	

Estimating the number of Rhode Islanders charged Room and Board at the respective Rhode Island Institutions, it is determined that: the Rhode Island student attending an in-state institution incurs, on the average, $1,200 per year for Room and Board Costs.

2. *Out-of-State costs.*—For the purpose of comparison, below is a chart which shows the Room and Board cost charged to students of all New England institutions.

RANGE OF ROOM AND BOARD CHARGES, 1973-74*



*Notch indicates median charge for each type of institution

[1] An additional private University combines tuition, fees, room and board in a Comprehensive Fee of $4250

[2] An additional seven private, Four-Year Colleges with Liberal Arts Programs charge Comprehensive Fees ranging from $3630 to $5275 with a median of $4250.

[3] Two additional private, Two-Year Colleges charge Comprehensive Fees of $3760 and $4250

[4] An additional School Primarily for Religious Training charges a Comprehensive Fee of $2200

SOURCE.—*Facts about New England Colleges, Universities, and Institutes*; New England Board of Higher Education; 1973/74, page 18.

C. Home maintenance costs

For the purpose of this study we assume that Room and Board costs to students who live at school equals the home maintenance costs of students who live at home and commute to school. The most recent studies by College Scholarship services reveals that when the costs to the family of a student living at home are added in, the difference in expenses at two-year and four-year colleges is not great.

D. Other educational expenses

College Scholarship Service estimates the following "other" annual expenses to full-time students for 1973–74. These costs include: books and supplies, transportation and personal costs and are based on national averages.

Public 2-year:	
Resident	$741
Commuter	733
Public 4-year:	
Resident	702
Commuter	652
Private 2-year:	
Resident	646
Commuter	547
Private 4-year:	
Resident	592
Commuter	499

(Average Other Annual Expenses, $639).

E. Summary of the total annual educational costs per full-time student[1]

In-State students:	
Tuition and fees	$1,000
Room and board	1,200
Other expenses	639
Total	2,850
Out of State students:	
Tuition and fees	[2] 1,865
Room and board	1,500
Other expenses	620
Total	3,900

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[1] These costs do not include foregone earnings to the student.

[2] These figures represent weighted per pupil average tuition and fee costs.

F. The part-time student

Due to the minimal amount of information regarding the attendance behavior of the part-time student, it is virtually impossible to construct a highly confident average educational cost/year for this type of student.

We offer the following estimates:

Average tuition and fees	$200
Average books and supplies	30
Average transportation	75
Total average educational costs	305

G. The total educational costs to all Rhode Island citizen students of postsecondary education

Table VI provides an estimate of the total costs incurred by Rhode Islanders who are participating in postsecondary education of a collegiate nature at the undergraduate level.

TABLE VI — ESTIMATED ATTENDANCE BEHAVIOR AND ANNUAL COSTS TO RHODE ISLAND CITIZEN STUDENTS

[Estimated 1973-74]

	Total	18 to 24 yr old	25 to 34 yr old	35 to 54 yr old	55 yr and over
Part-time (average cost-$305):					
Number of students	22, 800	11, 425	7, 125	3, 075	1, 125
Cost to students	$6, 955, 800	$3, 482, 800	$2, 189, 900	$939, 400	$343, 700
Full time: In State (average cost = $2,840):					
Number of students	19, 725	15, 375	3, 950	700	50
Cost to students	$57, 023, 000	$43, 605, 000	$11, 218, 000	$1, 998, 000	$142, 000
Out-of-State (average cost = $3,900):					
Number of students	6, 900	5, 700	600	200	------
Cost to students	$25, 362, 000	$22, 230, 000	$2, 340, 000	$780, 000	$12, 000
Total full time:					
Number of students	26, 600	21, 100	4, 550	900	50
Cost to students	$82, 385, 000	$65, 895, 000	$13, 558, 000	$2, 778, 000	$154, 000
Grand total:					
Number of students	49, 425	32, 525	11, 725	4, 000	1, 175
Cost to students	$89, 340, 000	$69, 377, 800	$15, 747, 900	$3, 717, 400	$497, 700

Note: The number of students have been rounded to the nearest 25. The costs to groups have been rounded to the nearest $100.

Table VI should be helpful in gaining a perspective on the issue of financial need as it is treated in the following sections.

SECTION III—HOW STUDENTS MEET THEIR EDUCATIONAL COSTS

In Section II we estimated the total educational cost to all Rhode Island residents who are attending postsecondary education. We were able to look at all age groups attending both in state and out of state institutions.

In our attempts to gather data relevant to how these students meet their educational costs, information was not adequate to treat:

(a) Those students who attend out of state institutions;
(b) Those who attend on a part time basis, and
(c) Those who are 25 years of age and beyond.

Therefore, this section will deal only with those Rhode Island students who are between the ages of 18–24 and who attend an in-state institution on a full time basis. This group of students constitutes 58% of the total number of Rhode Island citizens attending postsecondary education anywhere on a full time basis.

A. Estimated total cost to Rhode Island citizens 18–24 years of age in full time attendance at Rhode Island institutions

For the purpose of review, we found that the total educational costs to the 18–24 year old Rhode Island students attending Rhode Island institutions was estimated to be $43,665,000. (See Table VI) This cost is broken down by students family status in Table VI.

TABLE VII.—EDUCATIONAL COSTS TO FULL TIME 18- TO 24-YR.-OLD RHODE ISLAND CITIZENS ATTENDING RHODE ISLAND INSTITUTIONS BY FAMILY STATUS

[Estimated 1973-74]

Family status	Number [1]	Educational costs
Single/dependent	14, 225	$40, 399, 000
Single/independent	600	1, 704, 000
Married/spouse present	400	1, 136, 000
Married/spouse absent	150	426, 000
Total	15, 375	43, 665, 000

[1] All figures have been rounded to the nearest 25.
[2] All figures have been rounded to the nearest $100.

B. Financial need

College Scholarship Service of the College Entrance Examination Board has over the years developed and implemented a method for determining the financial need of individual students of postsecondary education. Simply stated: Financial need is that amount of money charged to a student for educational costs which is above what the student and the family combined can theoretically be expected to contribute to the cost of a student's education.

By formula: Financial need=cost of education—"expected" family/student contribution.

The "expected" combined family/student contribution varies depending on the student's (a) family status, (b) family and/or individual income and assets and (c) the number of dependent children or brothers and sisters of the student.

Using the theory and computation procedures for financial needs analysis, employed by College Scholarship Services, it is possible to estimate the financial need of a group of students.

The financial need of the 18–24 year old Rhode Island citizens who attend Rhode Island institutions on a full time basis is displayed below in Table VII. It should be reiterated that this financial need figure represents the financial need of:

(a) Fifty-eight percent of all Rhode Island citizens attending postsecondary education anywhere on a full time basis.

(b) It excludes all students over 25 years old.

(c) It excludes all citizen students attending institutions out of state, and

(d) It excludes all citizen students attending institutions on a part time basis.

(e) It excludes all postgraduate students.

TABLE VIII.—FINANCIAL NEED OF FULL TIME 18- TO 24-YR.-OLD RHODE ISLAND CITIZENS ATTENDING RHODE ISLAND INSTITUTIONS[1]

[Estimated 1973–74]

Family status	Group costs	Group contribution	Group financial need
Single/dependent	$10, 399, 000	$31, 362, 300	$7, 036, 700
Single/independent	1, 704, 000	839, 900	864, 100
Married/spouse present	1, 136, 000	550, 000	585, 200
Married/spouse absent	426, 000	320, 000	105, 600
Total	43, 665, 000	33, 073, 500	10, 591, 600

[1] All figures are rounded to the nearest hundred.

C. Meeting the financial need of the present attenders

We have now estimated a $10,591,600 financial need for those 18–24 year old Rhode Island citizens who attend Rhode Island postsecondary institutions on a full time basis. The question which must be addressed is: How adequately do the present financial aid programs meet this need?

1. *Financial Aid.*—(a) Financial Aid to All Students Attending All Rhode Island Postsecondary Institutions.

The total amount of financial aid which is distributed to all students attending all Rhode Island postsecondary institutions which participate in federal student aid programs is displayed below.

Source of financial aid (rounded 1973–74):	*Amount*
Federal student financial aid programs	$6, 231, 000
State student financial aid programs	1, 963, 000
Institutional financial aid programs	6, 764, 200
Private financial air programs	5, 680, 000
Social Security Benefits	3, 018, 600
Veterans Administration Educational Benefits	1, 125, 000
ROTC	93, 500
Other	1, 063, 300
Total	21, 708, 200

These total resources are distributed not only to Rhode Island citizens who are full or part time students but to non-Rhode Islanders attending institutions in Rhode Island.

(b) Financial Aid to 18–24 Year Old Rhode Islanders Attending In-State On a Full Time Basis.

We must adjust the total financial aid figure to reflect that amount which is distributed to Rhode Island citizens only. From information supplied by the Rhode Island postsecondary institutions, it is estimated that $8.8 million of total financial aid is distributed to Rhode Island citizen students attending in-state institutions.

Since this section limits its analysis to the 18–24 year olds who attend on a full time basis, we must adjust our financial assistance figure to reflect what is received by this group only. From information which has bene gathered through a survey of the veteran student (aforthcoming working note), estimates from the Department of Employment Security, and data gathered by the Rhode Island postsecondary institutions, it is estimated that approximately 80% or $6,980,000 of the $8.8 million is awarded to full time 18–24 year old Rhode Island students.

The extent to which this meets financial need is displayed below.

Original financial need	$10,591,600
Financial aid	−6,980,000
Remaining financial need	3,611,600

2. *The guaranteed student loan program.*—Students borrow under the Guaranteed Student Loan Program for two basic reasons: To meet that "expected" parental contribution which, though assessed in needs analysis, may not, in fact, be actually forthcoming from the parents; and to meet financial need.

(a) Guaranteed loans to all Rhode Islanders.

The R.I. Higher Education Assistance Corporation, the local agency responsible for the coordinating of Guaranteed Student Loans to Rhode Islanders, has guaranteed loans totaling approximately $5.7 million dollars thus far in 1973–74. These loans are made to Rhode Island residents in postsecondary education, undergraduate and graduate, attending institutions in and out of state.

(b) Guaranteed loans to 18–24 year old Rhode Island citizens of undergraduate full time student status attending Rhode Island institutions.

Institutional financial aid administrators have estimated the amount of Guaranteed Loans, procured by the above category student to be approximately $3.2 million.

(c) Guaranteed loans to meet financial need.

Precise data does not presently exist which permits a delineation of the dollar amount of guaranteed loans which can be attributed to meeting either unfulfilled "expected" family contribution or financial need.

One institutional aid administrator (with 2,500 aid recipients population) suggests that his data indicate approximately one-half of the guaranteed student loans at his institution are in lieu of parental contribution.

If that data were to be considered typical (and we do not know if it is so) it would suggest that $1.6 million of Guaranteed Student Loans may be applied agains financial needs.

The extent to which this meets financial need is displayed below.

Original financial need	$10,591,600
Financial aid	−6,980,000
Guaranteed student loans	−1,600,000
Remaining financial need	2,020,000

3. *Subsidizing unmet need through other means.*—At this point in the analysis our best estimates indicate a remaining financial need of $2,020,000 for the 18–24 year old Rhode Island citizen students attending Rhode Island institutions full time.

We are not certain as to how students finance this unmet financial need. It appears to come in part from student and family sacrifice (i.e., a reduced standard of living), gifts from relatives and friends, personal loans, and increased part time employment over and above that which is reported.

SECTION IV

MEETING THE FINANCIAL NEED OF THOSE NOT ATTENDING DUE TO FINANCIAL HARDSHIP

In Section I we determined the Family Income categories of 18–24 year old dependent students who are attending postsecondary education at significantly lower rates; we also compared the overall attendance/eligibility rates of this group with that presently maintained by the 18–24 year olds of other family status.

We attempted to show what the increase in student enrollment would be if the attendance/eligibility rates of all 18–24 year olds of all family status increased to selected minimums. It should be recalled that we arbitrarily selected attendance/eligibility rates of 68%, 50%, and 25%.

These rates should be viewed as "what if" devices for useful reference to the policy-maker. At this time we do not know the effects of increased forms of financial assistance, and proper counseling on the choice of nonattending eligibles to enroll in some form of postsecondary education.

Table IX illustrates what the financial need of the resultant attenders would be if they incurred educational costs per year of $3,000, $2,000 or $1,000. This financial need is based upon the hypothetical situation that sufficient financial assistance would increase the attendance/eligibility rates of all 18–24 year olds to that rate presently maintained by independent students with the highest family incomes. Table X and Table XI supply the same type of information but for minimum attendance/eligibility rates of 50% and 25% respectively.

TABLE IX.—THE RESULTANT FINANCIAL NEED OF 18- TO 24-YR-OLD RHODE ISLAND CITIZENS SHOULD THEY EXPERIENCE AN ATTENDANCE/ELIGIBILITY RATE LOWER THAN 68 PERCENT

Family status	Number of resultant attenders	Financial need of resultant attenders
At an estimated cost of $3,000:		
Single/dependent	3,350	$7,440,350
Single/independent	13,025	24,747,500
Married/spouse present	10,025	18,987,350
Married/spouse absent	1,875	2,323,125
Total	28,250	53,498,300
At an estimated cost of $2,000:		
Single/dependent	3,350	4,090,350
Single/independent	13,025	11,722,500
Married/spouse present	10,025	8,962,350
Married/spouse absent	1,875	448,125
Total	28,250	25,223,325
At an estimated cost of $1,000:		
Single/dependent	3,350	740,350
Single/independent	13,025	0
Married/spouse present	10,025	0
Married/spouse absent	1,875	0
Total	28,250	740,350

TABLE X.—THE RESULTANT FINANCIAL NEED OF 18-24 YR OLD RHODE ISLAND CITIZENS SHOULD THEY EXPERIENCE AN ATTENDANCE/ELIGIBILITY RATE NO LESS THAN 50 PERCENT

Family status	Number of resultant attenders	Financial need of resultant attenders
At an estimated cost of $3,000:		
Single/dependent	1,625	$3,596,125
Single/independent	9,375	17,812,500
Married/spouse present	7,225	13,684,150
Married/spouse absent	1,325	1,641,675
Total	17,925	36,734,500
At an estimated cost of $2,000:		
Single/dependent	1,625	1,971,000
Single/independent	9,375	8,437,500
Married/spouse present	7,225	6,459,150
Married/spouse absent	1,325	316,675
Total	17,925	17,184,325
At an estimated cost of $1,000:		
Single/dependent	1,625	346,000
Single/independent	9,375	0
Married/spouse present	7,225	0
Married/spouse absent	1,325	0
Total	17,925	346,000

TABLE XI.—THE RESULTANT FINANCIAL NEED OF 18 TO 24 YR OLD RHODE ISLAND CITIZENS SHOULD THEY EXPERIENCE AN ATTENDANCE/ELIGIBILITY RATE NO LESS THAN 25 PERCENT

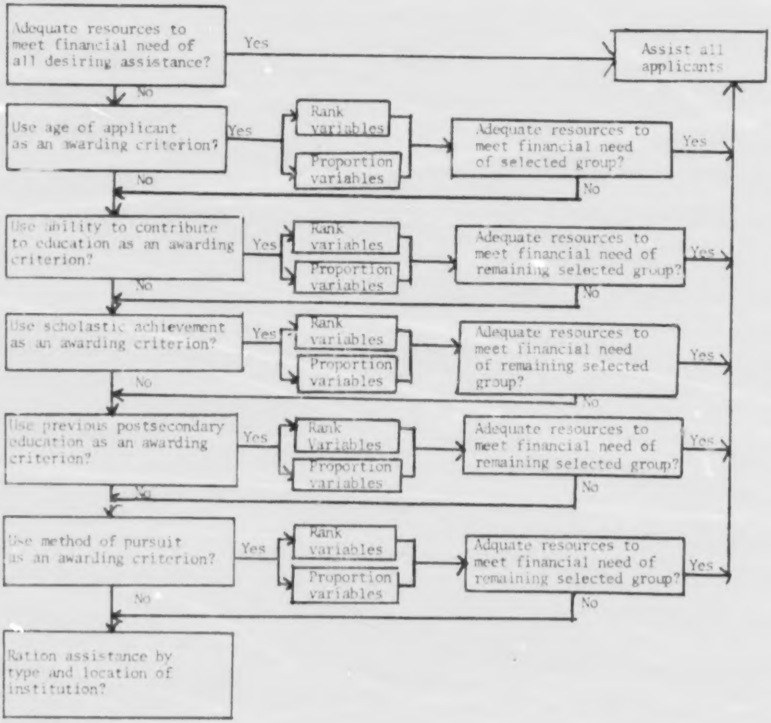
Family status	Number of resultant attenders	Financial need of resultant attenders
At an estimated cost of $3,000:		
Single/dependent		
Single/independent	4,300	$8,170,000
Married/spouse present	3,375	6,392,250
Married/spouse absent	575	712,425
Total	8,250	15,274,675
At an estimated cost of $2,000:		
Single/dependent		
Single/independent	4,300	3,870,000
Married/spouse present	3,375	3,017,250
Married/spouse absent	575	137,425
Total	8,250	7,024,675
At an estimated cost of $1,000:		
Single/dependent		
Single/independent	4,300	0
Married/spouse present	3,375	0
Married/spouse absent	575	0
Total	8,250	0

FINANCIAL ASSISTANCE FOR POSTSECONDARY EDUCATION

WORKING NOTE NO. 4

("Determining the Eligibility Pool for a Financial Assistance Program")

Decisions for Determining
the Eligibility Pool for
Financial Assistance


Adequate resources to meet financial need of all desiring assistance?
Yes
Assist all applicants
No
Use age of applicant as an awarding criterion?
Yes
Rank variables
Proportion variables
Adequate resources to meet financial need of selected group?
Yes
No
No
Use ability to contribute to education as an awarding criterion?
Yes
Rank variables
Proportion variables
Adequate resources to meet financial need of remaining selected group?
Yes
No
No
Use scholastic achievement as an awarding criterion?
Yes
Rank variables
Proportion variables
Adequate resources to meet financial need of remaining selected group?
Yes
No
No
Use previous postsecondary education as an awarding criterion?
Yes
Rank Variables
Proportion variables
Adequate resources to meet financial need of remaining selected group?
Yes
No
No
Use method of pursuit as an awarding criterion?
Yes
Rank variables
Proportion variables
Adquate resources to meet financial need of remaining selected group?
Yes
No
No
Ration assistance by type and location of institution?

INTRODUCTION

The pursuit of an ideal, such as equal opportunity in the postsecondary education (See Working Note #2), without regard to economic circumstances, will be assessed by public authorities in terms of how valued it is next to other ideals. The degree to which the ideal is achieved at any point in time will be determined by how the ideal is defined. Such a definition will also lead to an establishment of the steps needed to achieve the goal. It is logical to assume that public policy decisions would be made in such a fashion that resultant actions will logically lead toward the achievement of the ultimate ideal as it is defined.

This working paper will then assume that achievement of the ideal of equal opportunity in postsecondary education would provide the fullest opportunity for all, regardless of economic circumstance. Thus, all citizens in the state who have a need would be entitled to whatever assistance necessary. Having stated this, it is the immediate assumption that the resources necessary to meet this need are not available (See Working Note #3). Thus, a series of questions must be answered so that the difficult but necessary assignment of priorities may be initiated.

In the following pages, the critical questions relating to social, economic and other characteristics of the potential postsecondary education participants will be posed. Following these questions, the readily-available information as to *present circumstance* will be provided. The reader will then be provided with the opportunity to determine where he or she feels the highest priority of assistance should be allocated. Please keep clearly in mind that the *method* of providing assistance—whether loans, grants, scholarships or work—is not being addressed here.

It is the intent of this Working Note to surface critical concerns from which policymakers may debate and decide the appropriate financial assistance recipients for a Rhode Island financial assistance package.

PROBLEM NO. 1: USING AGE AS AN AWARDING CRITERION

The Problem

During a period experiencing limited resources, should available financial assistance be awarded by employing the age of the applicant as a rationing device?

The Options

There are three options available to the policymaker; they are:

(1) Do not use age as an awarding criterion.

(2) Prioritize the age of the applicant pool, so that available resources will be directed initially to the first group of selected students, and will subsequently flow to other groups to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for selected age groups to ensure the selection of recipients from all age groups.

The Issue

For the purpose of argument, the potential student citizenry can be divided into four subcategories.

(1) *The 18 to 24 year old age category*

Traditionally, students of postsecondary education belong to this age category; students have generally entered college immediately upon completion of high school, or upon discharge from the armed service.

It is argued that this group should receive priority for state financial assistance, since it is this group which holds the *greatest potential* economic and constructive return to a social investment of financial assistance.

(2) *The 25 to 34 year old age category*

This age category might be designated as society's upwardly mobiles. It is within this age category where one can identify the junior executives of the business community, mothers whose children have reached an age which allows them to make arrangements to continue their own education, and members of the present working force who find that their previous educational attainment no longer facilitates their gaining increased responsibility within their present employment.

It is argued that this group should be included within the financial assistance pool, since this group holds the *most immediate* return to society as a result of their having more realistic goals and objectives due to their first hand experience with society, their knowledge of how they are able to deal with it, and a realistic assessment of their needed capabilities to contribute to it.

(3) *The 35–54 year old category*

This age category might be designated as society's relearners. It is within this age category where one can identify those individuals who find themselves in need of updating their capabilities to accommodate professional demands that arise from the social technological advance of our era.

It is stated that this group should be included within the financial assistance pool, since it is through the educational system that man has acquired the capability to advance, that man's advanced capabilities have contributed to social/technological changes, and that it is to these changes which this age group must adjust. It is therefore argued that the education system is, in effect, responsible to those citizens who are in need of relearning or updating present skills.

(4) *The 55 year old and over age category*

This age category might be designated as consisting of society's established citizens. It is within this age group that one can identify individuals who will no longer change occupations, the pre-retirement and retired citizen.

It is argued that this group should be included in the financial assistance pool, since individuals within this group may experience the greatest number and degree of personal and role adjustments. It is this group which must adjust to increased leisure time, to sudden and unexpected losses of spouse, and to severe income changes as a result of retirement.

Information for Decision Making

Table I provides the 1973–74 estimated comparison of populations, eligibility and attendance for Rhode Island citizens by age groupings.

	Total	18 to 24 yr	25 to 34 yr	35 to 54 yr	55 yr and older
Number of citizens	667, 600	125 000	127 000	212, 600	203, 000
Number of eligibles	275, 200	72, 900	66, 900	88, 600	46, 900
Percent of eligibles to citizens	41	58	53	42	23
Number of attenders	49, 400	32, 500	11, 700	4, [illegible]00	1, 000
Percent of attenders to citizens	7	26	9	2	1
Percent of attenders to eligibles	18	45	18	5	3

Decision Point:

If age has been selected as an awarding criterion, either:

(1) Rank the following age groups into the order which will receive priority for financial assistance,

OR

(2) Indicate, by a percent to each age category, the fashion in which available resources will be divided or earmarked.

Age groupings	Selected rank	Selected percentage
18 to 24 yr old		
25 to 34 yr old		
35 to 54 yr old		
55 yr old and over		

PROBLEM NO. 2: USING ABILITY TO CONTRIBUTE TO EDUCATIONAL COSTS AS AN AWARDING CRITERION

The Problem

This problem addresses the conflict which arises from two opposing philosophical perspectives on the purpose of financial assistance:

Financial assistance should reward merit

Financial assistance should subsidize the needy

PARENTAL ANNUAL INCOME OF RHODE ISLANDERS BY SAT AVERAGE, HIGH SCHOOL SENIORS (1972-73)[1]

[The dilema which surfaces is the observation that a student's ability to score well on the Scholastic Aptitude Test (an examination which has been traditionally employed to predict a student's college success) correlates with the student's family income]

SAT average	average income
750 to 800	$20,400
700 to 749	17,125
650 to 699	17,243
600 to 649	16,593
550 to 599	14,401
500 to 549	13,687
450 to 499	13,595
400 to 449	13,141
350 to 399	12,550
300 to 349	11,924
250 to 299	10,728
200 to 249	6,482
Total	$13,492

[1] Source: Admissions Testing Program College Entrance Examination Board.

The effect of selection by income, therefore, would not reward merit and so with the converse.

The Options

There are three options available to the policymaker; they are:

(1) Do not use ability to contribute as an awarding criterion.

(2) Prioritize the expected parent/student contribution of the applicant pool, so that available resources will be directed initially to the first group of selected students and will subsequently flow to other groups to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for selected groups by ability to contribute so as to ensure the selection of recipients by all income categories.

The Issue

For the purpose of argument, the potential student citizenry may be divided into four subcategories by income.

(1) *Students from families with annual incomes less than $7,000*

It is argued that this group should be given priority for state financial assistance since it is this group which experiences the greatest financial need. Also, this group traditionally shows the largest academic gain from postsecondary experiences.

(2) *Students from families with annual incomes of $7,000 to $9,999*

It is argued that this group should receive priority for state financial assistance consideration. Although the financial need of lower income groups is more severe, the lower income group exhausts available financial assistance funds leaving insufficient resources other than loans to meet the financial need of the other groups.

(3) *Students from families with annual incomes of $10,000 to $14,999*

It is argued that this group should be included within the financial assistance pool, since its financial needs are substantial. Also, its Scholastic Aptitude Scores are significantly higher than the lower income groups, thus assuring greater academic success at the postsecondary level.

(4) *Students from families with annual incomes over $15,000*

It is argued that this group should receive priority for financial assistance, since it is this group which demonstrates the highest SAT scores and thus the greatest potential academic success.

Information for Decision Making

Table II shows a comparison between eligibility and full time attendance by family income for those 18–24 year olds who are dependent upon family support. This group of students represents 75% of the total number of Rhode Island citizens who are attending traditional postsecondary education on a full time basis.

TABLE II

Family income	Number of eligible 18 to 24 single dependents	Number of full-time attending 18 to 24 single dependents	Percent of eligibles to full-time attenders
Under $4,000	3,150	1,400	44
$4,000 to $4,999	1,100	300	26
$5,000 to $5,999	1,600	400	26
$6,000 to $6,999	1,850	1,300	69
$7,000 to $7,999	2,250	1,500	68
$8,000 to $8,999	5,300	3,600	68
$10,000 to $14,999	10,400	7,100	69
$15,000 to $24,999	6,000	4,900	66
$25,000 and over	2,250	1,500	68
Total	33,850	19,700	58

Note: All figures have been rounded to the nearest 50. 1969 family income has been used to facilitate analysis by inspection. Family income has increased approximately 28 percent since the 1969 census collection to September 1973.

Decision Point

If ability to contribute to the costs of postsecondary education has been selected as an awarding criterion, either:

(1) Rank the following income categories into the order which will receive priority for financial assistance,

OR

(2) Indicate by a percent to each income category, the fashion in which available resources will be divided or earmarked.

Income groupings	Selected rank	Selected percentage
Less than $7,000		
$7,000 to $9,999		
$10,000 to $14,999		
$15,000 and greater		

PROBLEM NO. 3: USING SCHOLASTIC ACHIEVEMENT AS AN AWARDING CRITERION

The Problem

This problem again arises out of two stances on financial assistance:

A social investment such as financial assistance should be made so as to ensure the greatest possible economic and constructive return.

Financial assistance should be awarded so as to accommodate the financial needy.

The Options

There are three options available to the policymaker; they are:

(1) Do not use scholastic achievement as an awarding criterion.

(2) Prioritize the scholastic achievement of the applicant pool so that available resources will be directed initially to the first group of students, and will subsequently flow to other groups to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for selected scholastic achievement groups to ensure the selection of recipients from all age groups.

The Issue

Traditionally, scholarships have been designed to serve the purpose of encouraging and rewarding outstanding scholastic achievement. Operating within a context of equal educational opportunity, and the knowledge of the correlation between family income and S.A.T. scores, a judgment must be made if selection by this criterion promotes an equal opportunity principle.

Information for Decision Making

Table III shows the estimated self reported high school grade point average for the 1972–73 college-bound high school seniors in Rhode Island.

TABLE III

	Male		Female		Total	
	Number	Percent	Number	Percent	Number	Percent
3.75 to 4.00	230	8	438	14	668	11
3.50 to 3.74	249	9	389	12	638	11
3.25 to 3.49	354	12	436	14	790	13
3.00 to 3.24	522	18	624	20	1,146	19
2.75 to 2.99	381	13	391	12	772	13
2.50 to 2.74	440	15	412	13	852	14
2.25 to 2.49	316	11	225	7	541	9
2.00 to 2.24	226	8	158	5	384	6
1.75 to 1.99	62	2	37	1	99	2
1.50 to 1.74	54	2	25	1	79	1
Under 1.50	25	1	16	1	41	1
Number	2,859		3,151		6,010	
Mean	2.90		3.08		2.99	
Standard development	.58		.56		.58	

Table IV shows the scholastic aptitude scores for the 1972–73 college bound high school seniors in Rhode Island.

TABLE IV

	Male		Female		Total	
Score	Number	Percent	Number	Percent	Number	Percent
VERBAL						
750 to 800	6	0	4	0	10	0
700 to 749	38	1	32	1	70	1
650 to 699	101	2	72	2	173	2
600 to 649	206	5	189	5	395	5
550 to 599	295	7	291	8	586	7
500 to 549	529	13	551	14	1,080	14
450 to 499	703	17	714	19	1,417	17
400 to 449	670	17	701	18	1,371	17
350 to 399	715	18	667	17	1,382	17
300 to 349	483	12	408	11	891	11
250 to 299	241	6	185	5	426	5
200 to 249	57	1	42	1	99	1
Number	4,044		3,856		7,900	
Mean	440		444		442	
Standard deviation	105		100		102	
MATH						
750 to 800	38	1	2	0	40	1
700 to 749	101	2	25	1	126	2
650 to 699	240	6	97	3	337	4
600 to 649	362	9	195	5	557	7
550 to 599	559	14	422	11	981	12
500 to 549	669	17	674	17	1,343	17
450 to 499	694	17	667	17	1,361	17
400 to 449	591	15	750	19	1,341	17
350 to 399	427	11	537	14	964	12
300 to 349	265	7	354	9	619	8
250 to 299	81	2	118	3	199	3
200 to 249	16	0	14	0	30	0
Number	4,043		3,855		7,898	
Mean	493		460		477	
Standard deviation	109		96		104	

Decision Point

If scholastic achievement has been selected as an awarding criterion, either:

(1) Rank the following scholastic achievement categories into the order which will receive priority for financial assistance,

OR

(2) Indicate by a percent to each category the fashion in which available resources will be divided or earmarked.

Achievement level	Selected rank	Selected percentage
Superior: Highest 5 percent		
Above average: 15 percent		
Average: 50 percent		
Below average: 15 percent		
Lowest: 5 percent		

PROBLEM NO. 4: USING PREVIOUS POSTSECONDARY EDUCATION AS AN AWARDING CRITERION

The Problem

This problem stems from the question: Is it of greater benefit to society to have many citizens of varying degrees of postsecondary education, however minimal; or are society's interests better served by having fewer but more completely postsecondary educated citizens?

The Options

There are three options available to the policymaker; they are:

(1) Do not use previous postsecondary education as an awarding criterion.

(2) Priorities the level of education of the applicant pool so that available resources will be directed initially to the first group of selected students, and will subsequently flow to other groups to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for selected groups to ensure selection of recipients from all groups by level of previous postsecondary education.

The Issue

For the purpose of argument, the potential student citizenry can be divided into four subcategories.

(1) *Eligible students with no previous postsecondary education*

It is argued that this group should receive priority for state financial assistance, since it is this group which has the most to be gained from an educational experience beyond high school.

(2) *Lower division postsecondary students*

This group consists of students who are enrolled in the first two years of postsecondary education, freshmen and sophomores. It is argued that this group should be included within the financial assistance pool, since a two year postsecondary educational experience is sufficient time to develop competencies capable of gaining satisfying, adequate learning employment. A further brief is that it is a social luxury to finance students beyond this level.

(3) *Upper division postsecondary students*

This age group consists of students who are enrolled in the last two years of postsecondary education, juniors and seniors. It is argued that this group should be included in the financial assistance pool since society's interests are better served by students whose education is both broadbased and technically specific. Such an education often requires four full years.

(4) *Postgraduate students*

This group consists of students who have completed postsecondary education of the Bachelors level. It is argued that these students should receive financial assistance since it is upon these students whom society depends for leadership, advanced research and problem resolution.

Information for Decision Making

Take V estimates the years of school completed for Rhode Island citizens by age grouping.

TABLE V[1]

Years completed	Total	Age category[2]			
		18 to 24	25 to 34	35 to 54	55 and over
High school	203, 650	51, 700	43, 650	73, 500	34, 800
1 college	28, 300	13, 150	4, 700	6, 550	3, 900
2 college	27, 700	9, 700	4, 950	8, 200	4, 850
3 college	13, 700	5, 500	3, 100	2, 900	2, 200
4 college	34, 550	6, 700	9, 450	11, 200	7, 200
5 and over	24, 100	1, 400	8, 600	9, 300	4, 800

[1] Estimated 1973-74 from table 148, 1970 census report.
[2] All numbers have been rounded to the nearest 50.

Decision Point

If previous postsecondary education has been selected as an awarding criterion, either:

(1) Rank the following educational level categories into the order which will receive priority for financial assistance.

OR

(3) Indicate by a percent to each category, the fashion in which available resources will be divided or earmarked.

Past educational level	Selected rank	Selected percentage
No postsecondary education		
Lower level		
Upper level		
Postgraduate		

PROBLEM NO. 5: USING METHOD OF PURSUIT AS AN AWARDING CRITERION

The Problem

Traditionally, students of undergraduate postsecondary education have chosen to pursue their studies on a full time basis; however, as the nature of the student has changed in terms of age and new educational commitments, the educational community has witnessed significant growth in its part-time student population.

The Options

There are three options available to the policymaker; they are:

(1) Do not use method of pursuit as an awarding criterion.

(2) Prioritize the pursuit method so that available resources will be directed initially to the first group of selected students, and will subsequently flow to other groups to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of available resources are earmarked for selected student status to ensure the selection of recipients attending in every pursuit method.

The Issue

For the purpose of argument, postsecondary students may be divided into two subcategories.

(1) *The full-time student*

It is argued that the full-time student should receive priority for financial assistance, since it would be a wise social investment to subsidize those students who have chosen to fully commit their time and resources to the pursuit of postsecondary education.

(2) *The part-time student*

It is argued that the part-time student should be included in the financial assistance pool, since their part-time status is evidence of a greater educational commitment, having to negotiate the time demands of both professional and student role.

Information for Decision Making

Table VI estimates the educational behavior of Rhode Island students by age in terms of part-time/full-time status.

TABLE VI

	Total	Age			
		18 to 24	25 to 34	35 to 54	55 and older
Part time	22, 806	11, 419	7, 180	3, 080	1, 127
Full time	26, 609	21, 100	4, 547	909	45
Total	49, 415	32, 525	11, 727	3, 989	1, 172

Decision Point

If method of pursuit has been selected as an awarding criterion, either:

(1) Rank the following classification of student status into the order which will receive priority for financial assistance,

OR

(2) Indicate by a percent to each category the fashion in which available resources will be divided or earmarked.

Student status	Selected rank	Selected percentage
Full time		
Part time		

PROBLEM NO. 6: USING TYPE OF INSTITUTION AS AN AWARDING CRITERION

The Problem

Should the state assist students who choose to attend all forms or types of postsecondary activity; or should state assistance be limited to college study?

The Options

There are three options available to the policymaker; they are:

(1) Do not use the type of institutional choice as an awarding criterion.

(2) Prioritize the types of institutions, so that available resources will be directed to students who attend the first selected type institution, and will subsequently flow students who attend other types to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for students who attend selected types of institutions to ensure the selection of recipients who attend all types of institutions.

The Issue

Postsecondary educational activity may be categorized as taking place in four forms:

The Correspondence School
The Proprietary Institution
The Private Traditional College
The Public Traditional College

Each institutional form claims to provide postsecondary students with the academic or technical capabilities to deal with, to contribute to and to appreciate the world around them.

Information for Decision Making

Table VII indicates the type of institutional choice by 1973 recipients of the Rhode Island State Scholarship

TABLE VII

Institution choice and number of recipients

Correspondence School	[1] 0
Proprietary Institution	[1] 0
Private Collegiate	344
Public Collegiate	341

[1] Under the present requirements recipients may not attend this type of institution.

Decision Point

If type of institutional choice has been selected as an awarding criterion, either:

(1) Rank the following institutional forms into the order which will receive priority for financial assistance,

OR

(2) Indicate, by a percent to each category, the fashion in which available resources will be divided or earmarked.

Type of institution	Selected rank	Selected percentage
Correspondence		
Proprietary		
Public collegiate		
Private collegiate		

PROBLEM NO. 7: USING LOCATION OF INSTITUTIONAL CHOICE AS AN AWARDING CRITERION

The Problem

Should financial assistance be awarded to students who take their stipend out of state?

The Options

There are three options available to the policymaker; they are:

(1) Do not use location of institutional choice as an awarding criterion.

(2) Prioritize institutional location so that available resources will be directed initially to the first priority, and will subsequently flow to students attending in other locations to the extent to which remaining resources permit.

(3) Divide the available resources in some fashion so that portions of these resources are earmarked for selected attendance locations to ensure that recipients be given the opportunity to attend anywhere.

The Issue

For the purpose of argument, institutional location can be divided into three sub-categories:

(1) Rhode Island Postsecondary Institutions

It is argued that financial assistance should only subsidize students who attend Rhode Island Institutions, since financial assistance should not serve the luxury of accommodating a student's choice to travel out of state.

(2) Institutions located in states that grant financial assistance for the purpose of attending Rhode Island Institutions.

It is argued that recipients should be allowed to attend institutions located in these states, since it promotes cooperation among interstate student exchange and gives students the opportunity to view the life styles of neighboring Americans.

(3) Institutions located anywhere

It is argued that recipients be allowed to attend an institution located anywhere since it is through such a policy that the idea of academic freedom can best be served.

Information for Decision Making

Table VIII shows the 1973–74 estimated educational behavior for Rhode Island's citizens attending postsecondary education by method of pursuit, location of institution and age.

TABLE VIII

	Total	Age— 18–24	25–34	35–54	55 and older
Part time:					
In State	16,619	7,091	5,819	2,593	1,116
Out of State	8,256	4,328	1,361	487	11
Total	22,806	11,419	7,180	3,080	1,127
Full time:					
In State	19,712	15,375	3,942	696	42
Out of State	6,897	5,733	605	213	3
Total	26,609	21,100	4,547	909	45
Total	49,415	32,525	11,727	3,989	1,172

Decision Point

If location of Institutional Choice has been selected as an awarding criterion, either:

(1) Rank the following Institutional locations into the order which will receive priority for financial assistance

OR

(2) Indicate by a percent to each category the fashion in which available resources will be divided or earmarked.

Institutional location	Selected rank	Selected percentage
In State		
Out of State with financial assistance to attend Rhode Island schools		
Out of State		

State of Michigan Department of Education,
Lansing, Mich., June 12, 1974.

Hon. James G. O'Hara,
Chairman, Special Subcomimttee on Education,
Washington, D.C.

Dear Congressman O'Hara: It was a pleasure for me to join with several of my colleagues from other states to be in Washington last Thursday, to provide testimony before your Special Subcommittee on Education concerning the role of state agencies in student financial assistance programs. I regret that the limited time available did not make it possible for us to discuss a number of important issues at greater length.

On behalf of the Michigan Higher Education Assistance Authority, which is responsible for the State Competitive Scholarship Program, the private college Tuition Grant Program and the Guaranteed Student Loan Program in this State, I wish to reemphasize two of the major points included as part of the official testimony presented by the National Association of State Scholarship Programs. The State Student Incentive Grant Program is, in our judgment, an important and creative venture on the part of the Congress and we urge that this program be continued in future years, and funded at a level which will continue to stimulate state efforts. Here in Michigan, we will receive approximately $832,000 to be used to match state scholarship appropriations during the coming school year. Approximately 1,300 Michigan students who otherwise would have been turned down for state scholarship assistance will now receive awards averaging $650 because of the availability of federal matching funds.

In addition, I wish to emphasize that we, in Michigan, along with our counterparts in other states throughout the country, stand ready, willing and able to assume a greater role in the coordination of state and federal student assistance programs. I am convinced that through a sharing of responsibilities, we can take full advantage of student assistance resources at both the state and federal level so as to provide both equality of access and freedom of choice to students interested in postsecondary programs of study.

Enclosed, for your information, is a copy of an Issue Paper on Student Financial Assistance, which was recently approved by the State Board of Education and endorsed by the Michigan Higher Education Assistance Authority.

I appreciate having had the opportunity to meet you personally and if, at any time, we can provide you specific information concerning any aspect of the student aid programs in operation in Michigan, we shall be happy to do so.

Most sincerely,

RONALD J. JURSA, *Director, Student Financial Assistance Services.*

To: State Board of Education.
From: John W. Porter, Chairman.
Subject: Staff Issue Paper on Planning for Student Financial Assistance.

At its meeting of April 2, 1974, the State Board of Education received the staff planning document concerning student financial assistance. The Board referred the document to the Council on Postsecondary Education for review and comment.

The Council on Postsecondary Education discussed the planning document at considerable length at its meeting of May 6, 1974. The Council voted to endorse the seven recommendations included in the planning document as follows:

(1) There should be created, within the Department of Education, a formal information services until responsible for planning and evaluating the effectiveness of Michigan student aid program.

(2) The State Board should formally support a fully-funded comprpehensive federal student aid program which provides a level of entitlement for financially-needed students.

(3) The State Board should record its support for continuation of the three major campus-based federal aid programs (Supplemental Educational Opportunity Grant Program, National Direct Student Loan Program, and College Work-Study Program).

(4) The State Board should support the implementation and continued funding of the State Student Incentive Grant Program, which will provide federal matching dollars for state student aid programs.

(5) The State Board should continue its support of H.B. 4783, which would permit up to 50% of state scholarship awards to be distributed on an individual high school basis.

(6) The State Board should continue its support of S.B. 451, which would create a state-wide Tuition Opportunity Grant Program.

(7) The State Board should continue its support of H.B. 4218, which would establish a Direct State Student Loan Program.

In addition, the Council on Postsecondary Education suggested that an additional recommendation be added as follows:

> . The State Board of Education should encourage efforts both within Michigan and nationally to achieve some type of clarification and compatibility between diverse systems of financial need analysis which presently serve as a source of confusion to parents and students.

It is recommended that the State Board approve the Staff Issue Paper on Planning for Student Financial Assistance and authorize staff to take appropriate actions to implement the seven recommendations contained in the Issue Paper, as well as the additional recommendation concerning financial needs analysis as suggested by the Council on Postsecondary Education.

MICHIGAN DEPARTMENT OF EDUCATION, LANSING, MICHIGAN, ISSUE PAPER, PLANNING FOR STUDENT FINANCIAL ASSISTANCE, DECEMBER, 1973

FOREWORD

Our complex society demands of its citizenry a high degree of personal understanding, interpersonal sensitivity, and technological expertise. To successfully cope with these expectations, some form of post-secondary preparation often becomes a necessity for many individuals. However, this demand takes place in an economic context which has pushed post-secondary programs of study beyond the grasp of many who could benefit from them. Thus, student financial assistance becomes, in reality, an important ingredient affecting the ultimate success of our democratic social structure.

In light of the importance of this issue, student financial assistance was identified as one of the major concerns warranting special emphasis in the Department of Education's planning efforts. The attached staff issue paper provides a brief background discussion covering several key facets of this issue, and a series of recommendations whereby Michigan can enhance its efforts to deal with the problem.

Many of the observations and recommendations included in this issue paper reflect the discussions and positive statements of the Michigan Higher Education Assistance Authority which has the statutory responsibility for advising the State Board of Education on matters relating to college costs and programs of student financial assistance. It is anticipated that a variety of specific recommendations will be forthcoming annually from the Authority, in conjunction with Department of Education staff, to assist the State Board in its ongoing efforts to speak both efficiently and effectively to this important issue of student assistance.

JOHN W. PORTER,
Superintendent of Public Instruction.

PLANNING FOR STUDENT FINANCIAL ASSISTANCE

I. Introduction

The issue of student financial aid is a complex and controversial one. The concept today operates under a variety of definitions, through a multitude of offices, in a wide range of forms, and is expected to support a variety of purposes and causes. Mention the term "financial aids" to any number of students or families and one will likely receive a contrasting definition from each one, as all expect this concept to conform to their individual priorities and needs. Ask a financial aids administrator where one should look for financial aid, and you will doubtlessly be turned in a variety of federal, state, and local directions in pursuit of these elusive funds. Asking similarly what form student aid takes, one is bombarded with a variety of terms such as scholarship, grant, tuition waiver, loan, work-study, packaging, etc. Each of these has a very distinct technical interpretation which carries little uniformity of public understanding and acceptance. Finally, when one asks what role financial aids should play in society at large, a variety of responses are also received. In recent years student financial aid has come to primarily support the goal of access, but it is also alluded to in terms of support for diversity of programs, support for academic excellence, a vehicle to support student institutional choice, etc. Multiplicity of purpose is not, in itself, bad, but such policy cannot be handled effectively unless all such potential goals are clearly addressed and articulated in a comprehensive priority system. The alternative tends to be confusion and contradictory program expectations.

Additionally, one must also candidly indicate that neither the abstract, conceptualization nor the pragmatic reality of "financial aid" operates in a vacuum. Both are subject to, and indeed part of, a much larger societal fabric with its overriding priorities and concerns.

The relative paucity of universal "truths" in this field does not, however, in any way diminish the State's responsibility for thorough planning and evaluation in this area. Instead, it simply highlights the critical need for such action if the legitimate needs of Michigan residents are to be responsibly addressed.

Before the planning process can be engaged in a meaningful manner, however, there must be available information as to (a) a mutually acceptable definition regarding the concept of student financial aid, (b) an understanding of the background of the field and its current major programs, (c) a perspective regarding the relative adequacy of current expenditures in this field, (d) an overview of the present delivery system matrix, and (e) an idea of the nature of some of the central issues of present concern in the field. This paper will address each of these major areas.

II. Definition—The "Demonstrated Need" Basis of Current Financial Aid Administration

To begin, an acceptable definition of "financial aid" must be identified to give direction to the paper's subsequent considerations. Since, at present, the underlying thread which seems to permeate the student financial assistance field is that of "demonstrated financial need," it appears reasonable to use that concept as the basis of this definition.

While several major systems of formalized "financial needs assessment" exist, and it is not the purpose of this paper to evaluate their relative merits, just about any student applying for assistance will be subject to such evaluation. The result of this evaluation, after due consideration of family and student income and assets, is a formal dollar figure called the "expected family contribution." This figure represents the amount which the system feels that the family should reasonably be able to to contribute to the student's educational expenses for the school year in question. This figure is then subtracted from the stated school budget for the particular academic year involved, and, if there is a positive remainder, this amount constitutes what is called "demonstrated financial need" for assistance. After this calculation has been completed, a wide range of aid resources are marshaled to assist student applicants with "demonstrated financial need," to help insure that their lack of resources does not preclude continued study.

For purposes of the discussion here, resources brought to bear on these "demonstrated financial need" figures, thus, shall constitute the definition of "financial assistance."

III. Student financial assistance—A history

Historically, prior to the mid 1950's there was little or no uniformity as to what constituted "demonstrated need" and as to how resources which were available could most equitably be distributed. The general student aid concept has actually been around practically from the inception of post-secondary study in this country, but aid funds for the "indigent" were initially very limited in quantity and administered according to each individual institution's personal sense of justice. Uniformity in allocation did not begin to develop until the mid 1950's when a group of schools voluntarily banded together in developing what is now known as the College Scholarship Service (CSS) needs analysis methodology. This subsidiary organ of the College Entrance Examination Board became the first national needs analysis system and is still in operation today.

"The CSS came into being principally as the result of requests from a number of member colleges of the Board for a standardized method of determining parental financial contributions toward the costs of attending college. Competitive bidding for students with exceptional intellectual promise, or other desirable talents * * * had reached proportions that were of widespread concern. In the view of many people, funds in limited supply were being expended unwisely in the competition to induce exceptional students to enroll at particular colleges."[1]

Prior to 1958, also, most student aid was provided either directly by the schools themselves or through private philanthropic endeavors. During the decade of the 1950's, post-secondary training was viewed to a large extent as a privilege of the relatively affluent or the academically talented, and financial aid came to be defined more in terms of a reward for academic excellence than as a resource for the needy. This trend has now largely been reversed, bringing financial aid primarily under the "demonstrated need" umbrella identified earlier.

In addition to an increasing variety of private and institutional aid programs which have been developing for needy students, the Federal government entered the general student aid scene with its first "need based" program in 1958. That year, the Congress established the National Defense Student Loan Program (N.D.S.L.) whereby "needy" students became eligible to borrow funds to continue their study, with repayment not scheduled to begin until after they left school. Originally, this program was directed only toward specific areas of study, but, in recent years, these restrictions have largely been eliminated. The title of the program itself was also recently changed to the National Direct Student Loan Program.

Then, in 1965, the Federal government also created the College Work-Study (CWS) and Educational Opportunity Grant (EOG) Programs. The former was designed to support the employment of needy students and the latter provides direct Federal grants to high-need students. More limited need based Federal programs were also subsequently added to enhance the development of trained personnel in shortage areas such as the health professions and law enforcement.

Finally, in 1972, a new Federal Basic Educational Opportunity Grant (BEOG) Program was created. This program is projected as a basic entitlement concept whereby all students can be assured of at least a basic financial aid foundation of $1,400.00 to support their post-secondary studies. Again, a financial needs test is employed to evaluate the amount which the family should reasonably be able to contribute and if it is less than the stipulated $1,400.00 foundation figure, Federal grant monies will be added to insure that the basic entitlement is met. Since this program is so recent, however, and since it has not yet reached full funding (only some $120 million was alloted nationally for 1973–74), its impact upon the student aid scene remains in need of further evaluation.

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[1] *New Approaches to Student Financial Aid*, CEEB, New York, 1971, p. 1.

Alongside these efforts, the State of Michigan, in 1960, established its own Guaranteed Loan Program, whereby students obtained loans from private lenders with an accompanying State guarantee of repayment if the student met with death, disability, or happened to default on his responsibilities. In 1966, this program became associated with the new Federally Insured Student Loan venture, and, in 1972, it also established demonstrated need as the basis for recipient interest benefits.

In parallel thrusts, in 1964 and 1966 respectively, the Michigan legislature established a Competitive Scholarship Program for students demonstrating both academic ability and financial need, and a separate Tuition Grant Program to help equalize expenses between public and private colleges so that needy students' post-secondary choices would not be limited by this differential.

From the above, it can be concluded that the financial aids picture today is largely composed of a mixture of scholarships (based on academic excellence and demonstrated need), grants (based on demonstrated need alone), loans (largely need based), and work opportunities (need based at least when utilizing federal subsidies). Major public governmental programs have also become the primary source of student aid, with private resources now playing a secondary role in terms of overall dollar availability and applicability. For the most part, when a student applies for financial assistance at his or her campus, and establishes eligibility, a variety of the above types of aid are "packaged" or combined to help meet the demonstrated need figure which has been formally established.

IV. Michigan student assistance dollar deficit

To facilitate state level planning regarding student aid resources, it is important to determine the relative adequacy of the current dollar amount of this mixture of student aid resources. While data in this regard is very difficult to obtain, by reviewing the annual Tripartite Forms filed by Michigan colleges and universities with the U.S.O.E., an attempt to assess the perceived adequacy of current student aid programs can be made. Reviewing current Tripartite documents, the following summary can be made regarding student aid available in Michigan for the 1972–73 academic year:

RESOURCES AVAILABLE AND UNMET NEED

	Resources available	Percent need met	Total need amount
I. Present attendance costs of students with demonstrated need to Michigan colleges and universities for the 1972–73 school year [1] (Minus deductions for existing resources)			$251,000,000
A. Minus expected family contributions	$101,000,000	40	[2] 150,000,000
B. Minus existing institutional aid (includes $15,500,000 in direct State appropriations to public universities for institutional student aid programs)	35,000,000	14	[2] 115,000,000
C. Minus existing other aid sources (includes $33,000,000 in State competitive scholarships, tuition grants and guaranteed loans)	35,000,000	14	[2] 80,000,000
D. Minus existing Federal programs (EOG, NDSL, CWS)	40,000,000	16	[2] 40,000,000
Total, resources available	211,000,000	84	
II. Remaining unmet need (1972–73)		(16)	[3] 40,000,000

[1] This figure was compiled from item 54 of the Federal Tripartite form. It estimates the total sum of student expenditures for tuition fees, room, board, and miscellaneous) for all needy students applying for aid during the academic year.

[2] Unmet remainder.

[3] Overall unmet remainder.

From this data, it is noted that for the 1972–73 school year there existed an aid deficit of some $40 million in the State of Michigan. This represented about 16% of student expenses for those assistance applicants enrolled, who evidenced demonstrated need.

While the full impact of the new federal Basic Educational Opportunity Grant Program (BEOG) on this factor of unmet need in Michigan remains yet to be determined, if the state continues to receive the roughly 5% of overall federal dollars which it has realized in the past on the other existing federal student aid programs, the total dollars which will be added to the student and reservoir by this new venture will amount to roughly $6 million for the current 1973–74 academic year. No other substantial increase in federal resources can be anticipated in this area for this year, as all other federal student aid programs were funded only at last year's level. In terms of added State Commitment, firm support has been forthcoming in 1973–74 only for an increase of some $3 million in the existing State Scholarship and Tuition Grant Programs to accommodate the increases in award maximums from $800 to $1,200, which were recently enacted by the Michigan Legislature. No substantive overall increase in student aid resources can be realistically anticipated from either the institutional or private sectors at this juncture.

Thus, if all else were to remain equal (i.e., no increased schooling costs, no increased overall enrollments, no increased percentages of disadvantaged students within campus populations, etc.) the State still faces an overall student aid deficit of some $31 million for the 1973–74 school year.

In addition, there are some further complicating factors which tend to indicate that the total dollar deficit, if thoroughly researched, would be even greater. Some key points of consideration here are the following:

1. The above figures are predicated on family acceptance and support of the essentially normative standardized needs assessment techniques which have been utilized to establish the expected family contribution factors being employed in this analysis.

As was stated earlier, the purpose of this paper is not to attempt to assess the relative merits and equitability of any particular needs assessment technique. But it should candidly be stated, that there is substantial disagreement with the expectations presently being levied by the national needs assessment procedures. Whether responsible individuals choose to view these concerns as valid and whether they choose to act on them is, of course, distinctly a policy and value issue.

However, the fact remains that the overall family contribution figure being projected may well be inaccurate, thus in essence, expanding the actual need of the students involved.

2. These figures do not include reference to part-time and vocational school students; most of whom, until very recently, have been excluded from award consideration under many aid programs.

3. These figures include no estimate of the need of Michigan students either choosing to pursue their post-secondary training outside of the state, or forced to do so because Michigan does not currently offer an appropriate program in their area of interest and ability. As population mobility continues to increase, the number of such students will doubtlessly continue to grow.

4. The existing federal programs (NDSL, EOG, CWS) are currently in a state of flux, and may, in the future, be largely supplanted by the new BEOG concept. Thus, the additional funds evidently available under this new program might subsequently be negated by losses in other established federal aid sources.

Also, the full BEOG impact, as yet, remains unclear, as its potential funding ceiling and final eligibility criteria are yet unclear.

5. The above figures include no estimate of the added demand for resources which would be felt if the post-secondary milieu were to be substantively changed by adding to the present mix a significantly greater percentage of high-need, disadvantaged students.

There has recently been substantial support for this very contention indicating that if post-secondary education is, in fact, going to continue to grow, the increase must come directly from these lower socio-economic circles. The recent *Study of Student Financial Aid Programs and Needs* for the State of Florida, for example, has contended that higher income families are already sending just about all of their students who could possibly benefit from such exposure on for further training. Thus, increased enrollment and recruitment concentration will have to draw proportionately greater numbers from the ranks of the disadvantaged, placing even greater strain on existing student aid resources.

6. The unmet need figures above will constantly grow due to inflationary factors alone, even if all else remains static. (Exhibit A indicates the approximate costs associated with Michigan colleges and universities for the 1974–75 academic year).

Thus, it is concluded that Michigan now faces an extensive dollar deficiency in student aid, and this problem is likely to grow to even larger proportions unless prompt corrective action is taken. Several of the recommendations offered at the conclusion of this paper identify methods whereby additional resources could be brought to bear on this problem.

It is important to note at this juncture also that recommendations are offered in this paper for both expanded State level grant (recommendation 6) and loan (recommendation 7) commitments to help meet this dollar deficit. If it can be philosophically assumed that both the individual and society have an important and equal stake in the post-secondary venture, then both approaches must be considered in dealing with the fiscal deficit at hand.

V. Student assistance delivery system

As prudent planning action is undertaken, a thorough analysis must also be made of the current delivery system which implements the flow of aid dollars to students. The present delivery system is largely an eclectic combination of a variety of methodologies. *First*, the student applies directly through the financial aids office on his or her chosen campus for the variety of federal government programs mentioned above. Through this office the student can also apply for any institutional stipends that might be available. *Second*, in Michigan the student applies directly to the State Department of Education for the Michigan Scholarship and Tuition Grant Programs. *Third*, the student is also encouraged to individually pursue private donor awards which might be available through his or her local community. The range and scope of these private programs are highlighted each year for Michigan students in the Department's *College Admissions and Financial Assistance Opportunities Handbook*. *Fourth*, students can now apply for a BEOG stipend directly through the designated Federal processing agency. *Fifth* and finally, there are a variety of education aid funds available directly through various governmental agencies (social security, vocational rehabilitation, and veterans administration offices) for specific categories of students.

This diverse delivery system includes scholarships, grants, loans, and work-study alternatives which span the entire range of aid type options. To date little thought has been given to the systematic coordination, much less any actual consolidation of divergent sources. A more coordinated application process would certainly seem desirable. While present individual programs procedures and regulations would preclude meaningful development of a specific recommendation in this regard at this juncture; the matter will certainly receive continued staff review. In the future the State may be able to play a crucial role in such coordination.

VI. Student Assistance Issues

Given this brief overview of the present student aid milieu, controversial theoretical issues currently confronting the financial aid community must also be identified so that they can be dealt with as part of the planning activity. A number of ramifications invariably emanate from each action taken, therefore it behooves the State to consider closely these pressing issues in suggesting specific courses of action. Some consensus must be reached as to which goal are desirable and what the rank order of value priorities are, so that programs can be implemented accordingly.

The first such consideration which must be faced is exactly what goals publicly supported aid programs are to serve. The issue of "access" has become predominant in most student aid thinking today; thus, the strong emphasis on "demonstrated need" and targeting student assistance to students with the least resources. However, strong arguments have concurrently been raised concerning the plight of the "middle class," for the use of financial aid as a vehicle for the reward of academic talent, and for the support of the financially pressed private post-secondary sector. Current State of Michigan programs attempt to speak simultaneously to several of those issues. The Competitive Scholarship Program funds the ablest of the needy. The separate Tuition Grant Program attempts to cover the normal cost differential found between public and private colleges and universities, for needy students, in an attempt to minimize the cost differential in such attendance decisions. The Guaranteed Loan Program, on the other hand, attempts to help a wide range of family income groups. The point, here, however, is not so much that one motive should replace the others as the focus of all student aid; but which priority structure should accompany future directions taken in the student assistance arena.

Secondly, there has, of late, been considerable discussion regarding the overall equity of the student loan concept. Argument has been raised that such funds serve as a "negative dowry" for female students and as an unfair "burden" to the needy and disadvantaged who must, of necessity, apply for student aid.

A related concern focuses around the issue as to who really benefits from post-secondary study. If society is the primary benefactor, then should not post-secondary study be offered on a no-charge basis, or at least in a very inexpensive manner to the student? If, on the other hand, the individual is the primary beneficiary, a case can be built for primary student and family responsibility for educational expenses. Both postures have, in fact, been forcefully put forth, while yet others would argue for no revision in the current balance of payment responsibility philosophy which presently exists. Recent reports by the Carnegie Commission and the Committee for Economic Development have precipitated much discussion of this issue.

In like manner, concern has been expressed regarding the overall responsibility of parents for support of post-secondary study. The legal aspects of this question are unclear, and the recent change in age majority in Michigan makes the problem even more complex. In the past, most aid programs have required an extensive period of demonstrated independence before award decisions could be made without review of the overall family resources. The argument used was that these programs were available to supplement family resources when they proved insufficient, not to replace them and effectively transfer a student's dependence from the home to the government or institution. Personal rights legislation such as the age of majority consideration may, however, redirect this thinking in the future.

Similarly, as discussed earlier, there is much concern regarding the relative "equity" of current needs assessment techniques. Are current theoretical assumptions in this area valid, and would these need evaluation systems take into account relative "willingness" as well as theoretical "ability" to contribute?

Likewise, what about the present delivery system which combines a variety of federal, state, institutional and local inputs? Is such a complex system both efficient and effective, and how should new programmatic additions or changes in the existing structure best be effectuated to assure support of student interests?

Also, should student aid serve solely student purposes, institutional purposes, societal purposes, or what combination thereof? Implicitly, we have already alluded to this issue, but the matter deserves candid acknowledgement and coverage in future planning efforts. Too often it comes into play as only part of the "hidden agenda" which surrounds so many policy and program decisions.

In addition, much concern has periodically been raised as to the degree to which the university should be exposed to the forces of the marketplace. One way in which the controversy is expressed is through the relative control which the school has over the availability and distribution of student aid resources. Those who feel the open market place environment fosters responsibility favor direct student allocations, whereas those who feel the university is weakened by the winds of political popularism favor more institutional control over the powerful tool of student resources.

Then, too, what consideration would be given to private vocational schools? In the past, they have often been excluded from student aid programs. This situation is beginning to change as the federal student aid programs have now formally been extended to such institutions. However, at this juncture on the state level, only the Michigan Guaranteed Loan Program is operative in this arena. We must expand our horizons to encompass all post-secondary education in our future financial aid planning.

Similarly, little attention has been given to the atypical student, those attending part-time or older adults returning for further study (i.e., the lifelong education concept), etc. To date, student aid programs have largely been geared to the "typical" 18–21 year old single student studying full-time on campus. However, with current developments this lock-step stereotype is beginning to break down. Commuter students, independent students, older adults, senior citizens, open schools, external degree program students and credit by examination program students have all been added and must be considered in future student aid planning.

Current court cases are also beginning to question the issue of state residency requirements and accompanying tuition differentials. Soon, state assistance program residency distinctions may also fall under legal scrutiny. A number of states are now developing fee reciprocity agreement. Should similar considerations be taken regarding state and/or regional student aid endeavors?

VII. Recommendations and conclusions

The above is but a brief summary of some of the difficult issues which surround the current student assistance field. These factors and more must be comprehensively and candidly addressed if responsible long-range planning is to take place in this area. From the above discussion it appears that such planning is needed in terms of:

1. Policy statements regarding the ultimate program goals and priorities to be supported in Michigan student assistance programs.
2. Recommendations regarding the nature of the delivery system which should be developed to best facilitate distribution of Michigan student assistance monies in line with the policy priorities addressed above.
3. Recommendations regarding the actual quantities of student aid resources needed.

Consistent with the Department of Education's expanded planning efforts in the area of post-secondary education, the Division of Student Financial Assistance Services will be continuously studying and evaluating the entire gamut of student assistance programs. It is anticipated that once each year an evaluation covering current policies and delivery procedures will be presented for State Board review.

To facilitate such efforts it is recommended that:

1. The State Board support the authorization and funding of a formalized Information Services Unit within the Student Financial Assistance Service Area, formally charged with the responsibility for periodically evaluating and reporting on the relative effectiveness and sufficiency of current Michigan student aid programs and dollars.

Such a mechanism should provide State Board with the current information needed regarding student needs and programs to facilitate responsible planning activity.

In addition, in light of the significant dollar shortage highlighted in this paper, and in the absence of compelling evidence at this juncture for any extensive change in the basic nature of existing programs, the following recommendations are offered regarding immediate support for a full tier of student assistance programs.

First, on the Federal level, it is recommended that:

2. The State Board of Education record its support for efforts to fully fund a comprehensive federal student entitlement program which would provide a uniform financial aid "floor" for all financially needy students.

This concept has already been operationalized in the new Basic Educational Opportunity Grant Program (BEOG), and can be made effective with full dollar funding. A number of operational involvements are also now underway to help render the BEOG Program more effective than it has been during its initial year of operation.

In addition it is also recommended that:

3. The State Board of Education record its support for the continuation of existing federal Supplemental Educational Opportunity Grant (SEOG), National Direct Student Loan (NDSL), College Work-Study (CWS), and Federally Insured Student Loan (FISL) Programs.

These traditional federal aid sources serve to augment the basic floor concept of the new BEOG Program, and provide an innovative variety of funding options for students.

Finally, in addition to these specific federal aid programs that are outlined and supported above, to help enhance creative thinking and state level initiative concerning present aid deficiencies, it is also recommended that:

4. The State Board of Education record its support for the creation and funding of the State Student Incentive Grant Program (SSIG). This program would provide federal funds to match state resources on a dollar-for-

dollar basis and would permit significant expansion of resources available to Michigan students.

It is further suggested that the State Board undergird the principle of shared Federal/State responsibility in student funding by supporting the following additional state level recommendations as well.

The State Board of Education has periodically recorded its support for the existing Competitive Scholarship and Tuition Grant Program concepts. These programs have proven very valuable in speaking to the overall Michigan student aid dollar deficit while simultaneously encouraging the talented but needy student and insuring continued availability of a wide variety of post-secondary educational options.

To help extend the Michigan Competitive Scholarship Program to a more representative audience, however, it is now recommended that:

5. The State Board of Education reiterate its support for the enactment of HB-4783 which would permit up to 50% of the state scholarship awards to be distributed on an individual high school basis (exhibit B).

From the outset the state scholarship program has attempted to build a creative bridge between acknowledgment of academic excellence and support for the needy, by making honorary awards to all program semi-finalists, and making actual financial stipends available to those of this group who might also demonstrate financial need. Administered strictly on an overall statewide basis, however, it has been found that many talented and needy students fail to qualify for these awards. In seeking this amendment to current scholarship legislation, the program would be made more accessible to students throughout the State, and thus more responsive to individual needs at the local level. Simultaneously a rigorous statewide acknowledgment program would be maintained for exceptional students with demonstrated financial need through the remaining program funds.

In addition to support for the continuation of these existing and proven programs, it is further recommended that:

6. The State Board of Education express its continued support for the enactment and funding of present SB 451 (exhibit C) which proposes a statewide Tuition Opportunity Grant Program.

This program will supplement the federal Basic Educational Opportunity Grant (BEOG) Program and provide a further state-wide entitlement concept for needy Michigan students. If operationalized on an early identification basis, this program could also serve as an added incentive for continued study. In addition, its flexibility could make this program extremely valuable both to older students seeking further training and to needy students enrolling for vocational or nondegree study.

Further, on the state level, it as also recommended that:

7. The State Board of Education express its continued support for the enactment and funding of present HB 4218 (exhibit D) which proposes a Direct State Student Loan Program.

Since its inception, the previously mentioned Federally Insured Student Loan Program (FISL), as operationalized in this state under the title of the Michigan Guaranteed Loan Program, has greatly increased the resources flowing to students from the private lending community. However, invariably, the State has encountered some areas in which lenders are reluctant to participate in this kind of program, and some other areas in which participating lenders place extensive restrictions on students to whom they will extend such loan resources under their traditional "prudent lending" policies. Also, many private lenders from high density population areas find that they have totally exhausted the resources that can be committed to this type of endeavor. For these reasons, the impact of the Guaranteed Loan Program has been less than uniform and many students have, as yet, been denied access to its resources. The above recommended legislation would provide a "last resort" alternate loan fund resource for these students unable to borrow through the existing Guaranteed Loan Program.

In conclusion, it should be stated that the tier of programmatic factors outlined above must not be mistaken as the full answer or the final step in Michigan's responsibility to creatively deal with this pressing issue. Further action will doubtlessly be periodically required as the overall financial aid structure continues to develop in response to changing student and societal needs.

It is hoped that through a judicious molding of the above recommendations, Michigan will be able to maintain and enhance its leadership role pertaining to student financing.

EXHIBIT A

MICHIGAN DEPARTMENT OF EDUCATION—STUDENT FINANCIAL ASSISTANCE SERVICES, COLLEGE ESTIMATE OF STUDENT EXPENSES, SCHOLARSHIP AND TUITION GRANT PROGRAMS 1974–75

[For September through June only]

Term or semester		Name of school	Tuition and fees	Room and board	Books and personals	Travel	Total
		PUBLIC COLLEGES AND UNIVERSITIES					
2	01	Central Michigan University, Mt. Pleasant	$567	$1,160	$550	$200	$2,477
2	02	Eastern Michigan University, Ypsilanti	600	1,189	550	200	2,539
3	03	Ferris State College, Big Rapids	501	1,350	550	200	2,601
3	67	Grand Valley State College, Allendale	518	1,140	550	200	2,408
3	49	Lake Superior State College, Sault Ste. Marie	498	1,300	550	200	2,548
3	04	Michigan State University, East Lansing	720	1,223	550	200	2,693
3	48	Michigan Technological University, Houghton	570	1,191	550	200	2,511
2	05	Northern Michigan University, Marquette	538	1,236	550	200	2,524
2	14	Oakland University, Rochester	621	1,290	550	200	2,661
2	76	Saginaw Valley College, University Center	539	1,250	550	200	2,539
2	06	University of Michigan, Ann Arbor:					
		Freshmen and sophmore	800	1,402	550	200	2,952
		Junior and senior	904	1,402	550	200	3,056
2	50	University of Michigan, Dearborn	596	900	550	350	2,396
2	51	University of Michigan, Flint	568	900	550	350	2,368
3	07	Wayne State University, Detroit	703	900	550	350	2,503
2	08	Western Michigan University, Kalamazoo	576	1,175	550	200	2,501
		NONPUBLIC COLLEGES AND UNIVERSITIES					
2	09	Adrian College, Adrian	2,102	1,09[illegible]	550	200	3,916
2	10	Albion College, Albion	2,330	1,310	550	200	4,390
2	11	Alma College, Alma	2,272	1,130	550	200	4,152
3	25	Andrews University, Berrien Springs	2,106	1,[illegible]40	550	200	3,996
2	12	Aquinas College, Grand Rapids	2,060	1,1[illegible]0	550	200	3,910
2	90	Art School Society/Arts/Crafts, Detroit	1,650	90[illegible]	550	350	3,450
2	13	Calvin College, Grand Rapids,	1,780	930	550	200	3,460
3	55	Cleary College, Ypsilanti	1,275	1,075	550	200	3,100
3	56	Concordia Lutheran Junior College, Ann Arbor	1,125	940	550	200	2,815
2	57	Cranbrook Academy of Art, Bloomfield Hills	2,146	1,200	550	200	4,096
3	58	Davenport College of Business, Grand Rapids	1,440	805	550	200	2,995
2	60	Detroit Bible College, Detroit	865	1,000	550	200	2,614
3	61	Detroit College of Business, Dearborn	1,281	900	550	350	3,081
2	62	Detroit College of Law, Detroit	1,210	900	550	350	3,010
2	26	Detroit Institute of Technology, Detroit	1,352	900	550	350	3,152
2	27	Duns Scotus College, Southfield	1,400	600	550	200	2,750
2	28	General Motors Institute, Flint	915				915
2	65	Grace Bible College, Grand Rapids	710	900	550	200	2,360
2	66	Grand Rapids Baptist College, Grand Rapids	1,450	1,050	550	200	3,250
3	97	Great Lakes Bible College, Lansing	976	810	550	200	2,536
2	15	Hillsdale College, Hillsdale	2,588	1,014	550	200	4,352
2	16	Hope College, Holland	2,210	1,100	550	200	4,060
2	75	John Wesley College at Owosso, Owosso	2,040	950	550	200	3,750
2	63	Jordan College, Cedar Springs	1,025	700	550	200	2,475
3	17	Kalamazoo College, Kalamazoo	2,400	1,200	550	200	4,350
3	68	Lawrence Institute of Technology, Southfield	1,080	900	550	350	2,880
2	18	Madonna College, Livonia	1,600	1,400	550	200	3,750
2	19	Marygrove College, Detroit	1,810	1,200	550	200	3,760
2	20	Mercy College of Detroit, Detroit	1,560	1,200	550	200	3,510
3	29	Merrill-Palmer Institute, Detroit Student attends one term or one semester during the year and returns to approved college	1,650	1,350	550	200	3,750
2	71	Michigan Christian Junior College, Rochester	1,358	1,140	550	200	3,248
3	73	Muskegon Business College, Muskegon	1,200	900	550	200	2,850
2	21	Nazareth College, Nazareth	1,630	1,280	550	200	3,660
3	74	Northwood Institute, Midland	1,770	1,800	550	200	3,600
2	22	Olivet College, Olivet	1,975	1,200	550	200	3,925
2	94	Reformed Bible College Association, Grand Rapids	950	920	550	200	2,620
2	30	Sacred Heart Seminary, Detroit	845	400	550	200	1,995
2	72	Shaw College of Detroit, Detroit	1,500	900	550	350	3,300
2	78	St. Mary's College, Orchard Lake	1,000	800	550	200	2,550
2	23	Siena Heights College, Adrian	1,550	995	550	200	3,295
2	31	Spring Arbor College, Spring Arbor	1,850	1,000	550	200	3,600
2	32	Suomi College, Hancock	1,970	1,200	550	200	3,920
2	64	Thomas M. Cooley Law School, Lansing	1,600	900	550	350	3,400
2	24	University of Detroit, Detroit	2,100	1,300	550	200	4,150

MICHIGAN DEPARTMENT OF EDUCATION—STUDENT FINANCIAL ASSISTANCE SERVICES, COLLEGE ESTIMATE OF STUDENT EXPENSES, SCHOLARSHIP AND TUITION GRANT PROGRAMS 1974-75—Continued

[For September through June only]

Term or semester	Name of school	Tuition and fees	Room and board	Books and personals	Travel	Total
	NONPUBLIC COLLEGES AND UNIVERSITIES—Con.					
	24.... University of Detroit, graduate programs (College):					
	Law, day school	$2,050	$1,300	$550	$200	$4,100
	Law, evening	1,400	1,300	550	200	3,450
	General graduate	1,400	1,300	550	200	3,450
	Denistry (1st year)	3,600	1,800	550	200	6,150
	Denistry (2d year)	3,600	1,800	550	200	6,150
	Denistry (3d year)	2,400	1,300	550	200	4,450
2	80.... Walsh College/Accounting and Business administration, Detroit.	1,010	900	550	350	2,810
	PUBLIC COMMUNITY COLLEGES					
2	33.... Alpena Community College, Alpena:					
	Resident of district	402	900	550	350	2,202
	Nonresident of district	650	1,100	550	200	2,500
2	52.... Bay De Noc Community College, Escanaba:					
	Resident of district	326	900	550	350	2,126
	Nonresident of district	481	900	550	350	2,281
2	46.... Delta College, University Center:					
	Resident of district	375	900	550	350	2,175
	Nonresident of district	735	900	550	200	2,385
2	35.... Charles Stewart Mott Community College, Flint:					
	Resident of district	372	900	550	350	2,172
	Nonresident of district	682	900	550	350	2,482
2	84.... Glen Oaks Community College, Centreville:					
	Resident of district	454	900	550	350	2,254
	Nonresident of district	640	900	550	350	2,440
2	36.... Gogebic Community College, Ironwood:					
	Resident of district	340	900	550	350	2,140
	Nonresident of district	495	900	550	350	2,295
2	37.... Grand Rapids Junior College, Grand Rapids:					
	Resident of district	338	900	550	350	2,138
	Nonresident of district	586	900	550	350	2,386
2	38... Henry Ford Community College, Dearborn:					
	Resident of district	320	900	550	350	2,120
	Nonresident of district	475	900	550	350	2,120
2	39... Highland Park College, Highland Park:					
	Resident of district	300	900	550	350	2,100
	Nonresident of district	600	900	550	350	2,400
2	40... Jackson Community College, Jackson:					
	Resident of district	434	900	550	350	2,234
	Nonresident of district	682	900	550	350	2,482
2	92... Kalamazoo Valley Community College, Kalamazoo:					
	Resident of district	325	900	550	350	2,125
	Nonresident of district	635	900	550	350	2,435
2	41... Kellogg Community College, Battle Creek:					
	Resident of district	372	900	550	350	2,172
	Nonresident of district	604	900	550	350	2,404
2	89... Kirtland Community College, Roscommon:					
	Resident of district	325	900	550	350	2,125
	Nonresident of district	635	900	550	350	2,435
2	34... Lake Michigan College, Benton Harbor:					
	Resident of district	320	900	550	350	2,120
	Nonresident of district	470	900	550	350	2,270
	47... Lansing Community College, Lansing:					
	Resident of district	330	900	550	350	2,130
	Nonresident of district	600	900	550	350	2,400
	69... Macomb County Community College, Warren:					
	Resident of district	364	900	550	350	2,164
	Nonresident of district	674	900	550	350	2,471
2	88.... Mid-Michigan Community College, Harrison:					
	Resident of District	330	900	550	350	2,130
	Nonresident of district	485	900	550	350	2,285
2	86.... Monroe County Community College, Monroe:					
	Resident of district	370	900	550	350	2,170
	Nonresident of district	670	900	550	350	2,470
2	91.... Montcalm Community College, Sidney:					
	Resident of district	390	900	550	350	2,190
	Nonresident of district	530	900	550	350	2,330
2	42.... Muskegon Community College, Muskegon:					
	Resident of district	357	900	550	350	2,157
	Nonresident of district	667	900	550	350	2,467

MICHIGAN DEPARTMENT OF EDUCATION—STUDENT FINANCIAL ASSISTANCE SERVICES, COLLEGE ESTIMATE OF STUDENT EXPENSES, SCHOLARSHIP AND TUITION GRANT PROGRAMS 1974–75—Continued

[For September through June only]

Term or semester	Name of school	Tuition and fees	Room and board	Books and personals	Travel	Total
	PUBLIC COMMUNITY COLLEGES—Con.					
2 45	North Central Michigan College, Petoskey:					
	Resident of district	$344	$900	$550	$350	$2, 144
	Nonresident of district	494	1, 250	550	200	2, 494
3 43	Northwestern Michigan College, Traverse City:					
	Resident of district	477	900	550	350	2, 277
	Nonresident of district	747	1, 150	550	200	2, 647
2 82	Oakland Community College, Bloomfield Hills:					
	Resident of district	330	900	550	350	2, 130
	Nonresident of district	630	900	550	350	2, 430
2 44	St. Clair Community College, Port Huron:					
	Resident of district	426	900	550	350	2, 226
	Nonresident of district	581	900	550	350	2, 381
2 79	Schoolcraft College, Livonia:					
	Resident of district	345	900	550	350	2, 145
	Nonresident of district	675	900	550	350	2, 475
2 83	Southwestern Michigan College, Dowagiac:					
	Resident of district	372	900	550	350	2, 172
	Nonresident of district	658	900	550	350	2, 458
2 87	Washtenaw Community College, Ann Arbor					
	Resident of district	375	900	500	350	2, 175
	Nonresident of district	720	900	550	350	2, 520
2 95	Wayne County Community College, Detroit:					
	Resident of district	314	900	550	350	2, 114
	Nonresident of district	624	900	550	350	2, 424
3 93	West Shore Community College, Scotville:					
	Resident of district	382	900	550	350	2, 182
	Nonresident of district	652	900	550	350	2, 452

EXHIBIT B

[House Bill No. 4783]

A BILL To amend Act No. 208 of the Public Acts of 1964, entitled "an act to grant scholarships to students enrolled in institutions of higher learning, and to provide for the appropriation of money from the state general fund in furtherance of this objective," being sections 390.971 to 390.980 of the Compiled Laws of 1970, by adding section 11

The people of the State of Michigan enact:

SECTION 1. Act No. 208 of the Public Acts of 1964, being sections 390.971 to 390.980 of the Compiled Laws of 1970, is amended by adding section 11 to read as follows:

"SEC. 11. (1) A high school shall be allotted a number of scholarships in proportion to its student enrollment. Scholarships allotted to a high school shall be awarded to those students having the highest competitive examination score and otherwise meeting all eligibility requirements of this act, including that of demonstrating financial need. The scholarships awarded pursuant to this subsection shall not exceed 50% of the initial freshman scholarships awarded pursuant to this act.

(2) The remaining scholarships shall be awared on a statewide, competitive basis.

EXHIBIT C

[Senate Bill No. 451]

A BILL To establish a higher education fund; to provide tuition opportunity grants to certain resident students enrolled in institutions of higher learning in the state; to prescribe the powers and duties of the state board of education; to prescribe a penalty; and to make an appropriation therefor

The people of the State of Michigan enact:

SECTION 1. A higher education fund is established in the state department of treasury. Moneys in the fund shall be used to reimburse each eligible student from the state, who is a full-time equated first-year student enrolled in an approved post-secondary educational institution within the state, an amount equal to the annual tuition rate but not to exceed $500.00. A student enrolled at least half time but less than full time will be eligible for an amount equal to the annual tuition rate but not to exceed $250.00. For purposes of this act, "a student from the state" means, a student who has graduated from a public or private nonprofit high school within the state.

SEC. 2. A student from the state who is the recipient of a state competitive scholarship in accordance with provisions of Act No. 208 of the Public Acts of 1964, as amended, being sections 390.971 to 390.980 of the Michigan Compiled Laws, or a state tuition grant in accordance with provisions of Act No. 313 of the Public Acts of 1966, as amended, being sections 390.991 to 390.997a of the Michigan Compiled Laws, is not eligible under this act.

SEC. 3. An applicant shall demonstrate financial need, including family income limitations, for a tuition opportunity grant as determined by the state board of education.

SEC. 4. The state board of education shall establish procedure for the certification of students for participation under the provisions of this act, and shall promulgate rules pursuant to the provisions of Act No. 306 of the Public Act of 1969, as amended, being sections 24.201 to 24.315 of the Michigan Compiled Laws. The department of education shall administer the tuition opportunity grant program pursuant to procedures and rules promulgated by the state board.

SEC. 5. The state auditor general shall be responsible for the postaudit of the higher education fund herein established.

SEC. 6. A person participating in or making application to participate in this tuition opportunity grant program who furnishes or attempts to furnish any false information relative to the act is guilty of a misdemeanor.

SEC. 7. The sum of $5,000,000.00 is appropriated from the general fund of the state to carry out the provisions of this act.

EXHIBIT D

[House Bill No. 4218]

A BILL To establish a higher education fund; to provide for student loans; to prescribe certain powers and duties; to promulgate rules; to provide penalties; and to make appropriations

The people of the State of Michigan enact:

SECTION 1. The higher education loan fund is established in the department of treasury. The fund shall be used to make direct interest bearing loans to residents who attend an approved post-secondary school in this state. The direct loans shall be made in accordance with the provisions of the state plan for administering the direct loan program as promulgated by the department of education.

SEC. 2. A student is eligible to apply for a direct state loan of not more than $1,000.00 annually if he certifies that he was unable to obtain a guaranteed student loan through an eligible lender and that he was unable to obtain a loan directly from the post-secondary school.

SEC. 3. A student who is receiving a scholarship, loan, or grant, public or private, is excluded from this act if his financial aid provides sufficient funds to meet approved educational costs. If the student is receiving less than the approved educational costs, he may borrow the difference, of not more than $1,000.00.

SEC. 4. A person otherwise qualifying for a direct state loan is not disqualified to receive a direct state loan by reason of his being under the age of 18 years. For the purposes of applying for, receiving or repaying a loan, a person shall have the rights, powers, privileges, and obligations of an adult person.

SEC. 5. The state board of education shall provide the procedure for the certification of students to participate under the provisions of this act and the department of education shall administer the provisions of this act and shall promulgate rules to implement the provisions of this act pursuant to Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.315 of the Michigan Compiled Laws.

SEC. 6. The state board of education may require a student who receives a direct state loan to remit a fee which may include the payment of a life insurance premium.

SEC. 7. The state board of education may enter into contracts with the federal government and receive funds from the federal government to assist in implementing federal aspects of the guaranteed loan program which apply to direct state loan programs.

SEC. 8. A person who furnishes false information in order to participate or in attempting to participate in a program under this act is guilty of a misdemeanor.

SEC. 9. There is appropriated to the higher education loan fund from the general fund of the state the sum of $1,000,000.00 to implement this act.

UNIVERSITY OF ARIZONA,
Tucson, Ariz., July 3, 1974.

Congressman JAMES G. O'HARA,
House of Representative,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: Enclosed is the report which I had promised you in regard to the student aid situation in the State of Arizona.

I am sorry that I have been so late in getting this to you, but we have had difficulties in regard to budgetary pressures, presidential reports and various other campus problems that seem to arise eternally and particularly at this time of the year.

If there are any questions that you or any member of your committee might have in regard to the problems which we are facing in our state, please do not hesitate to call upon us.

Incidentally, I plan to be in Washington the last week of this month and I will look forward to an opportunity to talk with you during that time. My secretary will be in touch with your secretary early next week in order to arrange an appointment.

Thank you very much.

Sincerely,

J. J. HUMPHREY,
Director, Scholarships and Financial Aid.

Enclosure.

FINANCIAL AID IN ARIZONA, 1974–75

I. BACKGROUND

The State of Arizona has experienced a rapidly accelerating growth in its population since the years immediately following the Second World War. Today, Arizona is growing more rapidly than any other state in the union, and there appears no reason that this phenomenal increase should not continue throughout the next three decades.

In 1940, the population of Arizona was only 499,261. By 1970 this figure had reached 1,772,482, and the latest estimates indicate that by the end of 1974 the population of the state may have reached 2,300,000 or even more. This increase has been felt most strongly in the Phoenix-Tucson area, but there are indications that other areas of Arizona may anticipate a similar rapid growth in the near future.

Phoenix, our largest metropolitan area, has an estimated aggregate population of approximately 1,200,000, while the Tucson metropolitan area is estimated at 473,000. In 1950, Phoenix had a population of 116,818 and Tucson only 45,454. This ten-fold increase in less than twenty-five years in each of these areas has created many problems, not the least of which is a rapidly burgeoning demand for higher education.

In 1950, there were four four-year institutions in the State of Arizona: The University of Arizona in Tucson founded in 1885, The Arizona State College (now Arizona State University) in Tempe founded in 1885, Flagstaff State Teachers College (now Northern Arizona State University) in Flagstaff founded in 1899, and Grand Canyon College then located in Prescott, founded in 1949.

At that time there were only two junior colleges in the state: Eastern Arizona College at Thatcher, which was founded in 1888, and Phoenix College in Phoenix, which was founded in 1920.

The decade of the sixties witnessed a tremendous growth in the size of our institutions as well as in the total number of institutions of higher education.

Today there are nineteen colleges and universities in Arizona, including thirteen community colleges, two four-year colleges, three state universities and one graduate school in international management. Total enrollments for the 1973–74 academic year approached 150,000 students, about equally divided between two- and four-year schools.

All of these institutions participate in the three college-based programs of Federal student aid: College Work-Study, National Direct Student Loans, and Supplementary Educational Opportunity Grants. The University of Arizona, with the only medical college in the state, is the only institution participating in the loan and grant programs for medical students, and the same situation prevails with regard to the Pharmacy college at their university.

Thirteen of the institutions have law enforcement loan and grant programs. The nursing loan and grant programs are utilized by three four-year institutions, all of which offer full degree programs in nursing. Thirteen two-year institutions also participate in this program offering registered nursing certification.

In regard to scholarship programs funded by the institutions, all colleges and universities in Arizona offer academic scholarships, and only Prescott College and the College of Ganado do not offer some form of activity scholarships.

All of the colleges and universities of our state offer certification for Federally Insured Student Loans, with the exception of Navajo Community College.

II. PROGRAMS

A. *Scholarships*

The State of Arizona has never established a program of state scholarships or grants. The three state universities, however, have a very fine system of waivers that has been authorized by the action of the State Board of Regents. Each year the universities are allowed to issue waiver-of-fees scholarships equalling 6% of the previous year's undergraduate enrollment. In addition to these scholarships, the University of Arizona and Arizona State University each have approximately 307 waivers for male athletes and 60 for female athletes.

The three state universities each have several hundred tuition waiver scholarships for non-resident graduate students.

Each of the two privately funded four-year colleges in Arizona has a scholarship program and J. D. Harris, Director of Financial Aid at Grand Canyon College, estimates that "58% of the aid our students receive comes from school funds or endowed scholarships." Since over 50% of the students at that institution receive some form of financial aid, the percentage of the total load carried by scholarships is impressive.

The community colleges of Arizona have made substantial progress in the establishment of scholarship programs. Today, there are school-sponsored scholarships of one form or another in each school in the state. The importance attached to the scholarships program varies from college to college but it is encouraging to note that an increasing number of community college financial aid directors are planning to become actively involved in fund development in the scholarship area. Henry Kutak, director of financial aids at Maricopa Technical College in Phoenix, states that "Present plans are to increase scholarship solicitations from private donors to compensate for the large reduction in NDSL (44%) and SEOG (70%)."

Fund development is an important phase of any scholarship operation and funds are often misdirected unless the financial aid officers are involved in the effort. At the University of Arizona, which expects to award 5000 scholarships for the 1974–75 fiscal year, over two-thirds of the total endowment of the university is reserved for scholarship purposes and the amount contributed to scholarships annually is nearing two million dollars.

At the University of Arizona the primary fund development responsibility for scholarship monies rests with the director and the associate director of the Office of Scholarships and Financial Aids, and they are expected to spend 40% and 25%, respectively, of their time in donor-related activities. Arizona State University has had centralized fund development in the past, but the responsibility for fund development is shifting more to the Financial Aids Office. At the present time, there is no official fund development activity on the part of Northern Arizona University.

As previously mentioned, scholarships represent 58% of the total financial aid at Grand Canyon College. At the University of Arizona they represent approximately 52% while at the other institutions of the state they represent varying amounts, all less than 50% of the total financial aid available to students.

This points out the inescapable fact that scholarship resources are not sufficient at any institution in our state to maintain the present level of enrollment without the addition of substantial federal student aid funds.

B. The on-campus programs

Since the inception of the National Defense Student Loans Program in the late nineteen-fifties, federal student aid programs have made a significant contribution to the cause of higher education in Arizona. At the present time all of our institutions of higher learning participate in the three college-based programs: NDSL, SEOG and College Work-Study.

During the 1973–74 fiscal year, Arizona State University had the largest operation in this state in all three of these programs. In National Direct Student Loans, this university loaned $1,776,310 to 2143 students, for an average loan of approximately $830 per student.

In the Supplementary Educational Opportunity Grant Program, Arizona State University granted $351,144 to 470 students, for an average grant of approximately the same amount as their average loan.

It was in the area of College Work-Study, however, that this institution has exhibited the most far-sighted approach of any college or university in Arizona. Work-Study funds of $847,856 were utilized in furnishing employment to 1237 students. This was the result of the fact that in the late 1960's Arizona State University took a very progressive attitude toward off-campus work-study programs and, due to their close proximity to the state capitol in Phoenix, developed a very comprehensive program. A different philosophy was instituted at the University of Arizona which resulted in almost no off-campus programs during the late 1960's. Although an aggressive approach to off-campus work-study has been adopted since 1971, the total program has suffered and consequently the number of students aided has declined with the curtailment in available funds during recent years. In fact, in 1973–74, the University of Arizona was forced to abandon the original 80%–20% matching funds formula for a 65%–35% formula in order to furnish assistance to an equal number of students as in previous years.

Collection of National Direct Student Loans is handled in many different ways among the institutions of our state. At the University of Arizona a collections section as part of the Office of Scholarships and Financial Aids has served to effectively hold down delinquencies and yet maintain the "image" of the university. At Arizona State University the collection of loans, federal funds and emergency loan funds is a part of the duties of their business affairs division and the same situation prevails at Northern Arizona University.

Most of the community colleges of the state have no collection efforts of their own, preferring to turn over the entire collection process to one of the bank corporations specializing in the collection and billing of federal loans. Phoenix College, for example, turns over the entire procedure to the American National Bank of Chicago, while Cochise College of Douglas, Arizona, turns the accounts over after making the first three contacts.

All in all, it seems that the colleges and universities of Arizona are administering the three campus-based student aid programs in an effective and efficient manner. Increasing enrollments during the 1970's will tend to work a considerable hardship on all of these institutions, unless the present trend is reversed in regard to the amount of money appropriated for these programs.

C. Basic Educational Opportunity Grant

The Basic Educational Opportunity Grant program is certainly the most controversial federal student aid program yet initiated. There remains a good deal of doubt in the minds of financial aid officers throughout our state as to the effectiveness of the basic grant program. All of the financial aid offices in Arizona are also concerned regarding the lack of administrative support funds for this program that threatens to consume more manhours than the campus-based programs. There is further doubt in regard to the apprent waste involved in the administration of this program on the national level. Many directors feel that the administration of the college-based programs is more economically sound.

During the 1973–74 fiscal year few students attending Arizona institutions of higher learning availed themselves of the opportunities offered in the area of basic grants.

Arizona State University processed 181 basic grants during the 1973–74 fiscal year for a total of $46,131. This represented the largest number of grants processed by any institution in the state. At the University of Arizona, only 153 grants were processed with a dollar value of $33,033, in spite of the fact that the Office of Scholarships and Financial Aids mailed a copy of the basic grant application to some 5000 freshmen, along with a letter urging them to apply.

Response on all campuses in the state to the basic grant program was basically the same. This was due in great part to the poor timing which prevailed by implementation, but largely due to the lack of concrete information available to schools and prospective candidates.

Although the first year of the basic grant program was disappointing, it appears that a complete reversal could come about during the 1974–75 fiscal year. Intense efforts have been made by the Office of Education to prepare all of the people involved in making the program a success. Lengthy training sessions were held in Arizona with counselors and financial aid officers and an additional series of counselors' workships is planned for the fall by the Arizona Association of Financial Aid Administrators.

Estimates on the campuses of Arizona State University and the University of Arizona are that funds in excess of $400,000 each will be used in the basic grant program this year. The situation on the campuses of the community colleges is even more optimistic. If the rapid increase in BEOG entitlements that is forecast actually occurs, these funds should go a long way to alleviate the problems posed on most of our campuses as a result of a decline in allocated funds for the campus-based programs.

D. Federally Insured Student Loans

The attitude of the various financial aid offices in the state of Arizona toward the Federally Insured Loan Program is far from unanimous in its enthusiasm. On many campuses the philosophy of the financial aid office has been to utilize all other programs as fully as possible before turning to the guaranteed student loan program as a source of financial aid. Other institutions have relied on guaranteed loans as an important source of student assistance and utilize the program to its fullest extent.

The University of Arizona has made the greatest use of this program and, as a result, during 1973–74 some 3,500 students received loans totaling approximately $3,500,000. Arizona State University, with a far greater amount of National Direct Student Loan funds, has not emphasized guaranteed loans to the same extent with 1,196 students receiving $1,236,416 in loans during 1973–74.

The community colleges of the state have not participated in this loan program to any great extent and the same has been true of Prescott College, although Grand Canyon College has utilized guaranteed loans in a very effective manner.

During 1973–74 the new needs test requirement for Federally Insured Student Loans complicated the situation considerably. Many students who had been on the program for several years suddenly found themselves ineligible. With the relaxation of the need for this test by Congressional action during the spring of 1974, the task of financial aids officers in evaluating applicants for this program should have been greatly lightened; however, other developments have again complicated the situation.

Due to the current high interest rates, many of the lending institutions in Arizona feel that this program should be sharply curtailed. We are experiencing increasing difficulties in finding lending sources for the students interested in this program and the only solution seems to be to increase the federal interest benefits on guaranteed loans. It is feared that if this is not accomplished in a very timely manner by Congress, many students at the University of Arizona, Northern Arizona University, Arizona State University and Grand Canyon College may not be able to attend school this fall.

For the past several years the University of Arizona has been investigating the possibility of becoming a lender under the guaranteed loan program. The task of accomplishing this goal is complicated by the fact that the State Constitution prohibits an indebtedness of over $350,000 for the entire state. The possibility of establishing this program through the University of Arizona Foundation is being explored but the real solution will require legislative action to amend the Constitution and establish a statewide guaranteed loan program.

III. THE FUTURE

Since Arizona is in an extremely unique position regarding future enrollment in higher education, possible solutions of current problems in this state are at variance with the solutions under consideration in states not blessed with a rapidly increasing population. Recent surveys by the College of Education at Arizona State University seem to indicate that enrollment at the University of Arizona, Arizona State University, Grand Canyon College, the Maricopa system of community colleges and Pima College will continue to increase throughout the decade of the 1970's. This study further indicates that although this increase will be relatively moderate during the 1970's, it will accelerate rapidly during the 1980's and continue to accelerate at least until the year 2000.

If an enrollment crisis is to occur in Arizona it appears that it will occur in those community colleges that have been established in areas of the state that are not increasing in population at the same rate as Pima and Maricopa Counties.

If the general growth of the state enrollment is as predicted, it becomes obvious that increasing amounts of student aid must be made available. It is hoped that the methods of fund allocation by the Office of Education will be streamlined in accordance with the recommendations of the Dallas Conference of early May, thereby making it less difficult for our expanding institutions to receive the amounts necessary to meet new demands for their services.

In the area of federally insured loans, hopefully, some means of inducing lending institutions to participate in the program and to participate to the fullest extent allowed by law will be devised. It is also important that some sort of state loan program be instituted as soon as the constitutional difficulties are resolved.

The campus-based programs continue to be the backbone of student aid on most of the campuses of our state. It would be tragic to abandon these programs and perhaps equally tragic to fail to fund them to the fullest extent necessary for their efficient operation. Perhaps those additional institutions of post-secondary education now eligible for these programs might be given special funding so that there would be no further decrease in the amounts available to colleges and universities.

The 1974–75 fiscal year should be crucial to the future of the campus loan programs and the basic grant program. It is hoped that basic grants will be fully utilized during this year and that experience factors on the campuses of the nation are made the basis for establishing administrative support funds for basic grants. The cost of administration for the Federally Insured Student Loan Program is also important. Above all, the institutions of higher education in Arizona must accept the responsibility for developing new sources of student aid funds. Only by the development of donor sources to at least match the funds provided by the federal government can they ever expect to have sufficient monies to meet the total student need on their campuses.

CALIFORNIA STATE SCHOLARSHIP AND LOAN COMMISSION,
Sacramento, Calif., February 19, 1974.

Hon. JAMES G. O'HARA,
Member of Congress,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: I am enclosing for your attention the statement adopted by the Scholarship and Loan Commission as an informal expression of our concerns and views relative to the current structure of the federal and state student financial aid programs. We feel very strongly that the time has come to redesign federal and state student financial aid programs so that they will be more comprehensible, effective and manageable. It seems to us that to maintain the status quo is to invite extremely serious problems and that steps should be taken with all due haste at both the federal and state level to bring about change in student financial aid programs.

I know this is a subject which has been of considerable interest to you and we would be pleased to hear from you with your reaction to our informal statement and to be of any possible service.

Sincerely,

ARTHUR S. MARMADUKE, *Director.*

Enclosure.

OBSERVATIONS ABOUT THE STATUS OF STUDENT FINANCIAL AID NATIONALLY AND IN CALIFORNIA

In the last ten years student financial aid has been characterized by a surge of enormous growth that has been both rapid and largely uncoordinated. Ten years ago student financial aid was a relatively simple educational enterprise. It was also very small with only one federal program (National Direct Student Loans), eight state programs, and limited college funds. In total, student financial aid resources were probably under $500,000,000 with the State of California's expenditures just under $3,000,000. One national financial need analysis system existed which was a national norm for need assessment.

Now there are six general federal programs for undergraduate students plus several categorical programs in health professions, law enforcement, etc. Three of the general federal programs are campus-based, one is administered by colleges and lenders, one is administered by a contractor and colleges, and one will be administered by participating states. At the same time, there are 28 states providing about $375,000,000 in grant assistance and some of them operate loan, or other specialized, programs. In California there are six programs of undergraduate student financial assistance administered by the State Scholarship and Loan Commission, two more administered by the individual segments of higher education, and it is possible that one or two additional programs will be enacted by the Legislature in 1974 for Commission administration. All in all, student financial aid resources exceed $4,000,000,000 annually and are growing. California's state expenditures are in the neighborhood of $45,000,000.

If student financial aid could be compared to a building, a committee of reviewing architects ten years ago would have found it undersized, simple, clean in design, and functional. Today it would be found massive, clumsy, hodgepodge of architectural ideas and materials, not functioning as well as it should to serve its population and with serious engineering deficiencies which could cause it to sway or collapse from its own weight or external pressure.

The situation at present may be summarized under four principal headings:

(1) *Student Confusion.*—Students, families, teachers, and counselors are confused and frustrated by the multiplicity of federal, state and other student financial aid programs for undergraduates. Students are bewildered in their attempts to decipher eligibility requirements and application procedures for the state, federal, and college-based programs. It must be nearly impossible for financial aid directors, teachers, and counselors (possibly with a limited understanding of the difference of the programs themselves) to describe to a 17-year-old the differences in the programs and the procedures in applying for a BEOG, a SEOG, a State Scholarship, a COG, an OETG, a NDSL, a FISL, etc.

(2) *Serious Managerial Problems.*—With the advent of the Basic Educational Opportunity Grant Program (BEOG) which will assist more than 1,000,000 students in 1974–75 and a greater number in subsequent years, the mechanical capacity to coordinate Commission programs with BEOG and campus-based programs has been exceeded. With various application forms and procedures, students apply to the Commission, to colleges, to a contractor for the BEOG, and to special organizations. Frequently, students receive awards from three or more sources and the Commission coordinates its awards with all organizations to insure that the student's assistance will not exceed his financial need and that, cooperatively, the best financial aid package can be developed for the student. Because of the size of the BEOG Program and its absolutely impossible application calendar (which does not coincide with college admissions and financial aid calendars), and because of the emergence of three need analysis systems (to be covered subsequently as a special problem), it will be impossible to coordinate awards effectively. If timely information cannot be provided to students concerning financial aid, they will be done a disservice, increasing their confusion and hampering their ability to make decisions about their college plans.

(3) *Lack of Conceptual Clarity.*—There does not seem to be conceptual clarity in the various federal student financial aid programs. The Supplemental Educational Opportunity Grant Program and the State Student Incentive Grant Programs appear to be targeted toward the same populations and, therefore, to serve overlapping purposes. The role of SSIG and SEOG in relationship to BEOG is confused because of the differing delivery

systems and the populations served also overlap to some degree. The 28 states currently administering student aid programs are uncertain of the relationship of their own programs to the new campus-based SEOG and BEOG. Indeed, the differences in the programs administered by the Commission in California are now blurred and two of them overlap considerably.

(4) *Special Problems in Need Analysis.*—There are three major analysis systems in the country: CSS, ACT and the federal system for the BEOG Program. Three need analysis systems producing different estimates of parental ability to contribute toward college costs make coordination of awards difficult, if not impossible, and on occasions ridiculous.

The implications of the findings above are serious. The multiple programs, the apparent conceptual inconsistencies, and managerial problems of a mechanical nature create a poor delivery system for student financial aid which will continue to increase the amount of confusion and uncertainty among the applicants, recipients, and the personnel who advise them. Because of the conceptual and mechanical problems and the special problems of the multiple need analysis systems, funds are likely to be used inefficiently thus inviting accusations, with some validity, of misuse of public funds. The time may come when someone will have to explain to the public and the legislatures how public funds can be distributed using three or more need analysis systems with different estimates of parental contributions toward college costs. This would not be an enviable task.

The poor delivery system could cause inefficient management to the extent that Congressional and state legislative enthusiasm for student financial aid programs could be depressed. It must be anticipated that there will be some students receiving more money than needed, other students being underfunded, and still others receiving money they need but at the wrong time and not when needed in order to make decisions concerning initial enrollment or continuation of college.

All in all, student financial aid program concepts and objectives must be reexamined; management must be improved; the delivery system must be improved; and all these things must be done quickly. A study may or may not be needed. There may not be time for one. The leadership in the higher education community, in Congress and HEW, and the state legislature must be alerted eventually to the serious nature of the problems relating to student financial aid programs and suggested solutions must be made. A mechanism to define the problems and develop some answers is needed now.

○

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STUDENT FINANCIAL ASSISTANCE
(Institutional Aid)

HEARINGS
BEFORE THE
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE
COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
NINETY-THIRD CONGRESS
SECOND SESSION

PART 7

INSTITUTIONAL AID

HEARINGS HELD IN WASHINGTON, D.C.,
JUNE 17, 18, AND 19, 1974

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*

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Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*

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STUDENT FINANCIAL ASSISTANCE
(Institutional Aid)

MONDAY, JUNE 17, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara and Benitez.

Staff members present: Jim Harrison, director, and Elnora Teets, clerk.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Up until today, we have been taking testimony on programs of direct student financial aid programs in which the Federal or State Governments make money directly available to students who, in turn, utilize those funds for the escalating costs of education.

This week we are going to look at various systems of funneling money directly to institutions, looking at those systems as a means of student financial assistance.

Title IV of the Higher Education Act provides for two such systems: first, section 419, which creates a system of payments to institutions based on the number of students attending such institutions who are recipients of grants, work-study or direct loans under title IV: and second, section 420, which creates a system of institutional payments depending on the increase of the number of veterans in attendance under the cold war GI bill.

Although both sections are written in terms of entitlement, only section 420 has been funded and carried out. The administration has not requested funding for either program, and when funds were first appropriated for veterans' cost-of-instruction allowances, it required court action by a number of schools and school organizations to rescind a Presidential impoundment action that had held up distribution of veterans' cost-of-education allowances.

At this point in the record, I would like to have printed appropriate provisions of law, relating to financial assistance for graduate students.

Subpart 5—Assistance to Institutions of Higher Education[1]

PAYMENTS TO INSTITUTIONS OF HIGHER EDUCATION

Sec. 419. (a) Each institution of higher education shall be entitled for each fiscal year to a cost-of-education payment in accordance with the provisions of this section.

---

[1] Sec. 1001(d) of P.L. 92-318 provides as follows:

(d) The total of the payments made under subpart 5 of part A of title IV, of the Higher Education Act of 1965 (except section 420) and under part F of title IX of such Act may not exceed $1,000,000,000 during any fiscal year.

(b)(1) The amount of the cost-of-education payment to which an institution shall be entitled under this section for a fiscal year shall be, subject to subsection (d), the amount determined under paragraph (2)(A) plus the amount determined under paragraph (2)(B).

(2)(A)(i) The Commissioner shall determine the amount to which an institution is entitled under this subparagraph on the basis of the total number of undergraduate students who are in attendance at the institution and the number of students who are also recipients of basic grants under subpart 1, in accordance with the following table:

If the total number of students in attendance is—	*The amount of the grant is—*
Not over 1,000	$500 for each recipient.
Over 1,000 but not over 2,500	$500 for each of 100 recipients; plus $400 for each recipient in exces of 100.
Over 2,500 but not over 5,000	$500 for each of 100 recipients; plus $400 for each of 150 recipients in excess of 100; plus $300 for each recipient in excess of 250.
Over 5,000 but over 10,000	$500 for each 100 recipients; plus $400 for each of 150 recipients in excess of 100; plus $300 for each of 250 recipients in excess of 250; plus $200 for each recipient in excess of 500.
Over $10,000	$500 for each of the 100 recipients; plus $400 for each of 150 recipients in excess of 100; plus $300 for each of 250 recipients in excess of 250; plus $200 for each of 500 recipients in excess of 500; plus $100 for each recipient in excess of 1,000.

(ii) In any case where a recipient of a basic grant under subpart 1 attends an institution receiving a cost-of-education payment under this subpart on less than a full-time basis, the amount determined under this subparagraph with respect to that student shall be reduced in proportion to the degree to which that student is not attending on a full-time basis.

(iii) If during any period of any fiscal year the funds available for making payments on the basis of entitlements established under this subparagraph are insufficient to satisfy fully all such entitlements, the amount paid with respect to each such entitlement shall be ratably reduced. When additional funds become available for such purpose, the amount of payment from such additional funds shall be in proportion to the degree to which each such entitlement is unsatisfied by the payments made under the first sentence of this division.

(B)(i) The Commissioner shall deterimne with respect to each institution an amount equal to the appropriate per centum (specified on the table below) of the aggregate of—

(I) supplemental educational opportunity grants under subpart 2;
(II) work-study payments under part C; and
(III) loans to students under part E;

made for such year to students who are in attendance at such institution. The Commissioner shall determine such amounts on the basis of percentages of such aggregate, and the number of students in attendance at institutions during the most recent academic year ending prior to such fiscal year, in accordance with the following table:

If the number of students in attendance at the institution is—	*The percentage of such aggregate shall be—*
Not over 1,000	50 per centum
Over 1,000 but not over 3,000	46 per centum
Over 3,000 but not over 10,000	42 per centum
Over 10,000	38 per centum

(ii) If during any period of any fiscal year the funds available for making payments on the basis of entitlements established under this subparagraph are insufficient to satisfy fully all such entitlements, the amount paid with respect to each such entitlement shall be ratably reduced. When additional funds become available for such purpose, the amount of payment from such additional funds shall be in proportion to the degree to which each such entitlement is unsatisfied by the payments made under the first sentence of this division.

(3)(A) In determining the number of students in attendance at institutions of higher education under this subsection, the Commissioner shall compute the full-time equivalent of part-time students.

(B) The Commissioner shall make a separate determination of the number of students in attendance at an institution of higer education and the number of recipients of basic grants at any such institution at each branch or separate campus of that institution located in a different community from the principal campus of that institution pursuant to criteria established by him.

(c)(1) An institution of higher education may receive a cost-of-education payment in accordance with this section only upon application therefor. An application under this section shall be submitted at such time or times, in such manner, and containing such information as the Commissioner determines necessary to carry out his functions under this title, and shall—

(A) set forth such policies, assurances, and procedures as will insure that—

(i) the funds received by the institution under this section will be used solely to defray instructional expenses in academically related programs of the applicant;

(ii) the funds received by the institution under this section will not be used for a school or department of divinity or for any religious worship or sectarian activity;

(iii) the applicant will expend, during the academic year for which a payment is sought, for all academically related programs of the institution, an amount equal to at least the average amount so expended during the three years preceding the year for which the grant is sought; and

(iv) the applicant will submit to the Commissioner such reports as the Commissioner may require by regulation; and

(B) Contain such other statement of policies, assurances, and procedures as the Commissioner may require by regulation in order to protect the financial interests of the United States.

(d)(1) The Commissioner shall pay to each institution of higher education for each fiscal year the amount to which it is entitled under this section.

(2) Of the total sums appropriated to make payments on the basis of entitlements established under this section and on the basis of entitlements established under part F of title IX—

(A) 45 per centum shall be available for making payments on the basis of entitlements established under paragraph (2)(A) of subsection (a);

(B) 45 per centum shall be available for making payments on the basis of entitlements established under paragraph (2)(B) of subsection (a); and

(C) 10 per centum shall be available for making payments on the basis of entitlements established under part F of title IX.

(3) No payments on the basis of entitlements established under paragraph (2)(A) of subsection (a) may be made during any fiscal year for which the appropriations for making grants under subpart 1 does not equal at least 50 per centum of the appropriation necessary for satisfying the total of all entitlements established under such subpart. In no event shall, during any fiscal year, the aggregate of the payments to which this paragraph applies exceed that percentage of the total entitlements established under such paragraph (2)(A) which equals the percentage of the total entitlements established under subpart 1 which are satisfied by appropriations for such purpose for that fiscal year.

(20 U.S.C. 1070e) Enacted June 23, 1972, P.L. 92-318, sec. 1001(a), 86 Stat. 375, 378.

VETERANS' COST-OF-INSTRUCTION PAYMENTS TO INSTITUTIONS OF HIGHER EDUCATION

SEC. 420. (a)(1) During the period beginning July 1, 1972 and ending June 30, 1975, each institution of higher education shall be entitled to a payment under, and in accordance with, this section during any fiscal year, if the number of persons who are veterans receiving vocational rehabilitation under chapter 31 of title 38, United States Code, or veterans receiving educational assistance under chapter 34 of such title, and who are in attendance as undergraduate students at such institution during any academic year, equals at least 110 per centum of the number of such recipients who were in attendance at such institution during the preceding academic year.

(2) During the period specified in paragraph (1), each institution which has qualified for a payment under this section for any year shall be entitled during the succeeding year, notwithstanding paragraph (1), to a payment under and in accordance with this section, if the number of persons referred to in such paragraph (1) equals at least the number of such persons who were in attendance at such institution during the preceding academic year. Each institution which is entitled to a payment for any fiscal year by reason of the preceding sentence shall be deemed, for the purposes of any such year succeeding the year for which it is so entitled, to have been entitled to a payment under paragraph (1) during the preceding fiscal year.

(b)(1) The amount of the payment to which any institution shall be entitled under this section for any fiscal year shall be—

(A) $300 for each person who is a veteran receiving vocational rehabilitation under chapter 31 of title 38, United States Code, or a veteran receiving educational assistance under chapter 34 of such title 38, and who is in attendance at such institution as an undergraduate student during such year; and

(B) in addition, $150, except in the case of persons on behalf of whom the institution has received a payment in excess of $150 under section 419, for each person who has been the recipient of educational assistance under subchapter V or subchapter VI of chapter 34 of such title 38, and who is in attendance at such institution as an undergraduate student during such year.

(2) In any case where a person on behalf of whom a payment is made under this section attends an institution on less than a full-time basis, the amount of the payment on behalf of that person shall be reduced in proportion to the degree to which that person is not attending on a full-time basis.

(c)(1) An institution of higher education shall be eligible to receive the payment to which it is entitled under this section only if it makes application therefor to the Commissioner. An application under this section shall be submitted at such time or times, in such manner, in such form, and containing such information as the Commissioner determines necessary to carry out his functions under this title, and shall—

(A) meet the requirements set forth in clauses (A) and (B) of section 419(c)(1);

(B) set forth such plans, policies, assurances, and procedures as will insure that the applicant will make an adequate effort—

(i) to maintain a full-time office of veterans' affairs which has responsibility for veterans' outreach, recruitment, and special education programs, including the provision of educational, vocational, and personal counseling for veterans,

(ii) to carry out programs designed to prepare educationally disadvantaged veterans for postsecondary education (I) under subchapter V of chapter 34 of title 38, United States Code, and (II) in the case of any institution located near a military installation, under subchapter VI of such chapter 34,

(iii) to carry out active outreach, recruiting, and counseling activities through the use of funds available under federally assisted work-study programs, and

(iv) to carry out an active tutorial assistance program (including dissemination of information regarding such program) in order to make maximum use of the benefits available under section 1692 of such title 38,

except that an institution with less than 2,500 students in attendance (I) which the Commissioner determines, in accordance with regulations jointly prescribed by the Commissioner and the Administrator of Veterans' Affairs (hereinafter referred to as the "Administrator"), cannot feasibly itself carry out any or all of the programs set forth in subclauses (i) through (iv) of this clause, may carry out such program or programs through a consortium agreement with one or more other institutions of higher education, and (II) shall be required to carry out such programs only to the extent that the Commissioner determines, in accordance with regulations jointly prescribed by the Commissioner and the Administrator, is appropriate in terms of the number of veterans in attendance at such institution. The adequacy of efforts to meet the requirements of clause (B) in the preceding sentence shall be determined by the Commissioner, based upon the recommendation of the Administrator, in accordance with criteria established in regulations jointly prescribed by the Commissioner and the Administrator.

(2) The Commissioner shall not approve an application under this subsection unless he determines that the applicant will implement the requirements of clause (B) of paragraph (1) within the first academic year during which it receives a payment under this section.

(d) The Commissioner shall pay to each institution of higher education which has had an application approved under subsection (c) the amount to which it is entitled under this section. Payments under this subsection shall be made in not less than three installments during each academic year and shall be based on the actual number of persons on behalf of whom such payments are made in attendance at the institution at the time of the payment.

(e) No less than 50 per centum of the amount of payments received by any institution under subsection (d) of this section in each academic year shall be applied by such institution to implement the requirement of subclause (i) of clause (B) of paragraph (1) of subsection (c) of this section, and, to the extent that such 50 per centum amount is not exhausted, the requirements of subclauses (ii), (iii), and (iv) of such clause, except that the Commissioner may, in accordance with criteria established in regulations jointly prescribed by the Commissioner with the Administrator, waive the requirement of this subsection to the extent that he finds that such institution is adequately carrying out all such requirements without the necessity for such application of such amount of the payments received under this subsection.

(20 U.S.C. 1070e-1) Enacted June 23, 1972, P.L. 92-318, sec. 1001(a), 86 Stat. 378, 379.

Mr. O'Hara. We will begin this section as we usually do, with a presentation by our friend John Phillips, Acting Associate Commissioner of Education, who is accompanied by Sue House of the Assistant Secretary's staff, and Dr. Walter Gale, Chief of the Veteran's Program Unit in the Office of Education.

STATEMENT OF DR. JOHN D. PHILLIPS, ACTING ASSOCIATE COMMISSIONER FOR STUDENT ASSISTANCE, BUREAU OF POSTSECONDARY EDUCATION, U.S. OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, ACCOMPANIED BY SUE HAUSE, SPECIAL ASSISTANT TO THE DEPUTY ASSISTANT SECRETARY FOR LEGISLATION, DHEW; DR. WALTER J. GALE, CHIEF, VETERANS' PROGRAMS UNIT, BUREAU OF POSTSECONDARY EDUCATION, OE; AND NEIL McARTHUR, ASSISTANT CHIEF, VETERANS' PROGRAM UNIT, OFFICE OF STUDENT ASSISTANCE

Mr. Phillips. Thank you, Mr. Chairman.

We have some additions and substitutions in the lineup of persons that are appearing before you this morning.

Sue Hause, the Special Assistant to the Deputy Assistant Secretary for Education Legislation, is here substituting for Charlie Cooke; and in addition to Dr. Gale on my immediate right; farther to the right is Mr. Neil McArthur, Assistant Chief of the Veterans' programming within the Office of Student Assistance.

It is a pleasure to be here again today for the purpose of reviewing the history and the operation of the veterans' cost-of-instruction program.

After this brief overview of the program's history and operation, we would be happy to expand on any point and to respond to questions from committee members.

I. Legislative History of the Veterans' Cost-of-Instruction Program

The Education Amendments of 1972 authorized the veterans' cost-of-instruction program under part A of title IV of the Higher Education Act of 1965.

The program was developed in response to a growing concern by some that veterans were not taking advantage of their educational assistance benefits provided through the Veterans' Administration, plus the recognition that many of the nonparticipating veterans were educationally disadvantaged.

In order to encourage schools to recruit and serve educationally disadvantaged veterans, the law requires that a participating institution establish programs of remediation, tutorial services, and counseling, in addition to engaging in recruitment and community outreach.

In addition, the legislation calls for a "bonus payment" for each veteran enrolled who has previously had remediation (GED or PREP programs) or tutorial aid under VA support.

To further encourage postsecondary institutions to serve the educationally disadvantaged veteran, an institution may utilize up to 50 percent of its award for the general academic-instructional program of the institution, although the award is based solely on veterans enrolled.

II. Operations of Veterans' Cost-of-Instruction Program

To be eligible for participation in the program, an institution must be accredited and nonprofit; divinity schools are excluded. An institution applying for the first time exhibit at least a 10-percent growth in its veteran enrollment over the previous year; renewal applicants must maintain their base year veteran enrollment in succeeding years to remain eligible.

Legislation is now pending which would amend this requirement to provide that an institution would be eligible if 10 percent of its enrollment is composed of veterans. This would extend eligibility to some institutions which have very large veteran populations but which have been unable to increase that population by 10 percent.

Section 419 mandates that the institution shall maintain a full-time office of veterans' affairs with responsibility for community outreach, recruitment, and special education programs (remedial and tutorial), plus educational, vocational, and personal counseling for veterans; however, the Commissioner is authorized to waive these requirements in part for institutions with less than 2,500 students.

In addition, such an office is responsible: (1) For carrying out "programs designed to prepare educationally disadvantaged veterans for postsecondary education" while fully utilizing appropriate VA benefits; (2) for developing active programs of recruitment and counseling "through the use of funds available under federally assisted work-study programs"; and (3) for implementing an active tutorial program making maximum use of VA benefits. The program regulations were developed in close cooperation with the Veterans' Administration and published as final on October 9, 1973.

III. EVALUATION

As the program has been operational less than a year, it is too early to draw any firm conclusions about its effectiveness. Certain observations can, however, be made: (*a*) Veteran enrollments in applicant institutions have increased; (*b*) the use of VA tutorial and remedial benefits has increased; and (*c*) there is some anecdotal evidence that the campus services to veterans have improved.

Our review of this program indicates that most of the awards have gone to publicly supported institutions. These are the institutions that have enrolled veterans in substantial numbers and which have provided the services required by the legislation.

In addition, many veterans have elected to attend public institutions since these institutions generally charge lower tuition.

Mr. Chairman, this concludes our presentation, and we would be pleased to entertain any questions.

I might also refer you or direct your attention to the accompanying table which shows amounts awarded during 1973–74 in the veterans cost-of-instruction, the first year of the operation of the veterans cost-of-instruction program, and there is a short summary there in the right-hand column showing distribution of moneys by type of instruction.

[Table follows:]

Veterans' cost-of-instruction program, 1973–74

State	*Total amount awarded*	*State*	*Total amount awarded*
Alabama	$696, 948. 70	Nevada	$35, 626. 82
Alaska	28, 202. 89	New Hampshire	177, 880. 82
Arizona	535, 148. 59	New Jersey	553, 701. 73
Arkansas	83, 515. 76	New Mexico	108, 653. 12
California	6, 032, 193. 94	New York	1, 471, 568. 68
Colorado	434, 348. 15	North Carolina	754, 680. 70
Connecticut	135, 223. 27	North Dakota	84, 568. 69
Delaware	39, 452. 06	Ohio	635, 718. 01
District of Columbia	179, 820. 12	Oklahoma	400, 205. 22
Florida	897, 614. 65	Oregon	361, 866. 07
Georgia	398, 392. 55	Pennsylvania	573, 867. 56
Hawaii	118, 822. 70	Rhode Island	47, 582. 38
Idaho	45, 636. 44	South Carolina	457, 550. 66
Illinois	1, 391, 085. 07	South Dakota	27, 389. 65
Indiana	209, 115. 92	Tennessee	249, 780. 85
Iowa	249, 860. 84	Texas	1, 533, 818. 92
Kansas	108, 733. 08	Utah	159, 740. 88
Kentucky	255, 012. 28	Vermont	29, 402. 46
Louisiana	336, 802. 01	Virginia	465, 054. 56
Maine	119, 062. 60	Washington	913, 348. 57
Maryland	435, 891. 99	West Virginia	87, 714. 20
Massachusetts	475, 470. 68	Wisconsin	476, 403. 65
Michigan	764, 796. 92	Wyoming	28, 556. 09
Minnesota	196, 793. 86	Puerto Rico	212, 694. 62
Mississippi	225, 663. 12	Trust Territory	6, 304. 34
Missouri	561, 598. 81		
Montana	13, 208. 44	Total	24, 999, 999. 94
Nebraska	48, 768. 61		

AWARDS TO INSTITUTIONS BY TYPE

Type	Percent	Number
2 yr	56	587
4 yr	44	465
Public	83	883
Private	17	169

Mr. O'Hara. Mr. Phillips, do you know if there has been any effort to compare the increase in enrollments with the increase in the number of veterans?

Dr. Phillips. You mean for the schools participating in the program?

Mr. O'Hara. No, but if the numbers of veterans nationwide went up 12 percent, say, and enrollment went up 11 percent, that would sort of suggest the program was not working.

On the other hand, if it were the other way around, we would have a different situation.

Dr. Phillips. I think I might ask the chief of our programs, Dr. Gale, if you would want to respond.

Dr. Gale. Unfortunately, I can't respond to the question. We have not collected that sort of data.

Mr. O'Hara. I frankly have some questions about whether or not it really is accomplishing, as you indicate, and it is too early to evaluate, but I don't know if it is really accomplishing its objective or not. If there are more veterans going to school or significantly more than there would have been.

Dr. Phillips. Without the program?

Mr. O'Hara. Yes, without the program.

Dr. Phillips. I think this is perhaps a worthy question and one which we ought to perhaps try to see if we can come up with data for you, and we will be pleased to make that effort.

Mr. O'Hara. I would hope that before we conclude these hearings it might be possible to get a better notion of that.

I think it is very hard in the first year of operation.

Dr. Phillips. Yes. Specifically, what you would like to know is the percentage increase in number of veterans returning and available to take advantage of educational services and that compared with the percentage increase in veterans' enrollments in the schools served by this program?

Dr. Gale. I have that figure. Last year there were 456,000 veterans enrolled in the schools, and just this morning we got a count of 526,000 veterans. Which is an increase of 16 percent.

Dr. Phillips. That is a 16-percent increase. What we would need to find out is what the increase in the number of eligible veterans is then, and we will try to get that for you.

Mr. O'Hara. Any under any other measure also. That one occurs to me offhand. There may be other ways also of measuring it. I suppose some of it has to do with other factors like the availability of good jobs.

Dr. Phillips. Yes.

Mr. O'Hara. So I am not sure we can sort these things out, but I would hope you could make an effort to do that.

Dr. Phillips. We will try to, Mr. Chairman.

Mr. O'Hara. The two pending amendments—I think under our ground rules of operation it would be difficult for you to say very much about them. I am not sure that I understand exactly what an institution must do to remain eligible when you say, "Renewal applicants must maintain their base year veteran enrollment in succeeding years to remain eligible."

Dr. GALE. The school in 1972, say, that had 100 veterans, had to have 110 veterans, a 10-percent increase in 1973; and to maintain their eligibility, they have to maintain 110.

Dr. PHILLIPS. They have to increase upward.

Dr. GALE. No. Just maintain the 110.

Dr. PHILLIPS. So if they fall below the new base year, they lose eligibility for participation in the program.

Mr. O'HARA. I see. They don't have to show growth the second year then?

Dr. GALE. No.

Mr. O'HARA. They remain eligible if they have shown the growth one time, as it were?

Dr. GALE. Right.

Dr. PHILLIPS. And don't again fall below it.

Mr. O'HARA. It kind of looks to me like a way to get money to California. I am not sure I accurately described the program. Certainly that is one of the effects of it. I am an unabashed admirer, as you know, of California's public higher education system, so I am not sure I am entirely against that.

But that is, I think, one of the effects of it.

Well, before we go on with this and before we get into rewriting title IV, I very much want to get as hard an evaluation as we can of whether or not the program is producing the results that it is designed to produce.

I can imagine that some institutions might have had a 10-percent increase in veterans without any effort on their own part, and all of a sudden they get money for it and maybe it does not take an awful lot of effort to maintain it there either.

You know, I don't know. I just want to find out. I would hope when we come back up here to discus policy decisions, maybe we can have some work done.

Thank you very much for coming up, gentlemen. I am not going to detain you further this morning.

We have a couple of other witnesses, and then I understand the Supreme Court is having decision day today, and I am curious about that.

Dr. PHILLIPS. Thank you very much.

Mr. O'HARA. Our second witness is Dean Jack Shainline, speaking for Long Beach State University in California. Dean Shainline is representing Long Beach's distinguished president, Dr. Stephen Horn, who has been frequently in touch with this subcommittee and other committees of the Congress with respect to what he considers the inequities of the veterans' cost-of-education law.

We have asked Dean Shainline to testify with regard to veterans' cost of instruction and to add his comments on any other institutional aid issues which he believes the subcommittee should be dealing with during this current appearance.

Dean Shainline, please be seated and we appreciate your appearance.

STATEMENT OF DEAN JACK SHAINLINE, STUDENT AFFAIRS, CALIFORNIA STATE UNIVERSITY, LONG BEACH, CALIF.

Mr. SHAINLINE. Mr. Chairman, I am pleased to hear your remark about California. I was concerned for a moment when you started.

There are two attachments with my testimony this morning. One is an attachment which gives the 14 basic services which we are attempting to perform for our student veterans at California State University, Long Beach.

The second, which I think, is significant, is a letter from Dean David Travis, assistant statewide dean in our system, which gives some very accurate facts and figures of California and of the State university and college system and particularly the veterans population relative to higher education in Los Angeles County.

Mr. Chairman, gentlemen of the subcommittee we have almost 6,000 veterans enrolled at California State University, Long Beach. This is the largest veteran population on any campus in the United States, and most of them are there because of GI benefits. Most are Vietnam era veterans. A lot are married with children. Most need outside jobs in order to be able to subsist.

That puts a lot of pressure on our institution. There is a tremendous amount of staff and paperwork involved in processing thousands of enrollment certifications.

Our Veterans' Affairs Office, which was set up and has been kept running for the last 3 years out of our own limited budgetary hide and various other catch-as-catch-can budgetary sources, has acted as the base of recordkeeping for veterans for registration purposes and as the university liaison agency to the Veterans' Administration.

Much of its time has been taken up processing the forms and information necessary for what has become the almost chronic problem of late checks from the VA. and securing emergency loans when checks do not come in on time.

We have also been able, with the small staff we now have, to provide some counsel and advice to veterans who are having academic or personal problems and don't know where to turn for help.

Actually, this is where most of the attention is needed—in counseling veterans who are having problems in readjusting to civilians and campus life, in providing them effective academic advisement, career orientation, and help in finding jobs since, as you know, there is twice as much unemployment among Vietnam veterans as among others of their peer age group.

A lot need assistance in finding housing. Many come from backgrounds with inadequate academic preparation inasmuch as former college deferment policies resulted in a concentration of noncollege and often minority youths with deprived backgrounds, in the armed services.

These same men now either want a college education and are less well prepared for it than most, thus requiring tutorial and remedial programs by the university, or they are less aware than others that a college or university education is a possibility for them, and that requires a recruitment effort by the university, as well as the Veterans' Administration, and other agencies.

As I said, this is where most of our attention and efforts in the campus office of veterans' affairs should be directed--toward providing veterans not only with educational opportunities that other students are provided with by our institution, but also with the special help and special services that many veterans need and which cannot be provided through existing university programs.

These regular and more traditional programs are already overloaded with the needs of the 25,000 nonveteran population of the university and hindered by limited budgetary support.

Yet, because of lack of staff, our office of veterans' affairs has been mostly preoccupied with the daily recordkeeping and paperwork and where is veteran X's last check.

We are far from attaining the 14-point program of basic services which is attached and which sets out the objectives of the veterans' affairs program on our campus. The minimal amount we have been able to do to move toward these goals, as I stated earlier, has been done by stretching to the breaking point our existing limited resources.

You can imagine our delight therefore, when the possibility of veterans' cost-of-instruction payments came about in 1972. Nowhere in the United States was there a campus so badly in need of aid to make its institution respective enough to the broad-ranged educational requirements of so many veterans.

You can also imagine our chagrin, therefore, when we found that in order to qualify for such funds, we would have to increase our veterans enrollment by 10 percent.

For us at California State University, Long Beach, that meant some 600 more veterans. Here we've been working hard for the past several years to get them to come to the university for the necessary education even without the impetus of cost of instruction, and now we find ourselves virtually punished for our past achievement.

That's especially galling when a university or college "brand X" down the road or across the Los Angeles basin, which has, say, 200 veterans, either because of its location or because it has not been recruiting, only needs 20 more veterans to become eligible for—had the law been fully funded—some $300 of institutional support per full-time equivalent veteran to provide that veteran with the needed educational opportunities.

Not only do we need cost-of-instruction payments in order to meet the demand put on higher educational institutions by Federal programs which increase accessibility to higher education (as they rightly should, both in general and for veterans in particular, but large institutions with already substantial veteran enrollment such as California State University, Long Beach, should not be penalized as they have been by the 10-percent increase eligibility criterion, particularly difficult at a time of generally leveling off or declining enrollments nationally.

The current amendment being offered to the original so-called Cranston amendment calls for a 10 percent veteran enrollment of total undergraduate enrollment as an alternative to the 10-percent increase in the number of veterans per se.

We strongly support this revision. It not only provides a minimum base which justifies Federal support, but it also is equitable for all institutions and does not penalize those veterans already enrolled when enrollments fluctuate greatly.

I understand this has now been included as an amendment in the Senate's Elementary and Secondary Education bill and is probably in conference this morning.

I urge anything you can do to insure its retention in that legislation. With adequate cost-of-instruction payments, we could make vast inroads in providing what I consider to be the irreducible minimum in instructional and educationally related services to what constitutes one-fifth of our student body.

This includes not only progress toward achieving full implementation of the 14-point program for the Office of Veterans Affairs, but insuring that we have the staff adequately trained to manage an effective veterans program, that we have the best instructors and most useful modes of instruction for all veterans, particularly for those needing learning assistance and special advisement.

In a recent survey of Americans between age 18 and 25 by opinion researcher Daniel Yankelovich, a marked difference was demonstrated between the attitudes of Vietnam veterans and nonveterans of the same age group.

In addition to the problem of unemployment, which I referred to earlier, and as a substantially greater incidence of alcohol and drug use which creates the need for special attention to these young veterans as a group, there was another most striking feature: only half the Vietnam veterans said that things were going well in their own lives, compared with 74 percent of the nonveterans in their age group.

Education, and in most instances particularly higher education, can and must play a crucial role in restoring more of a balance.

However, we cannot do it by sweat and tears alone, although much of that is probably involved. We cannot do it given a strained budget situation.

If institutions of higher education such as California State University, Long Beach are to meet the needs and demands of the veterans who have met the needs and demands of this Nation, that cannot be effectively accomplished without Federal support to cover the cost of instruction and services to these deserving individuals.

Mr. Chairman, that concludes my formal remarks and I remain available for questioning.

Mr. O'HARA. Dean Shainline, exactly what does the amendment that is part of the Senate Elementary and Secondary Education bill do? That is the amendment you mentioned in your testimony.

Mr. SHAINLINE. The present status?

Mr. O'HARA. No; the corrective amendment, the amendment that would permit Long Beach to come in.

Mr. SHAINLINE. The corrective amendment reduces it either for 10 percent to a lower figure or continues it on the basis, as I understand it, of the number of veterans an institution now has.

A situation we find in Los Angeles County with the three largest of the State universities, Long Beach, Northridge, and Los Angeles, all with large student-veteran enrollments, have received no moneys under the present status of the law.

None of these three institutions have benefited from the moneys for this program and yet a smaller institution with 200 veterans did benefit from the moneys. In our situation we started very early to recruit veterans and because of our metropolitan location we are easily accessiable to a great number of veterans.

I think the percentage is unfair and unjust when you have 6,600 veterans at one institution that you can't serve with the assistance of Federal moneys and you have 200 in another small institution who are receiving Federal moneys and they can be served.

Mr. O'HARA. Well, of course, one of the purposes of the program was to increase the enrollments of veterans. That is obviously why Senator Cranston put that provision in.

Mr. SHAINLINE. That is correct, sir, and we have increased California State University at Long Beach in our veterans enrollment each year. Despite declining enrollments, we are one of the few institutions of our size that gained in total enrollments and did not suffer a decrease.

We have increased our veterans enrollment, but the point I am making is, in order to continue to do this and at the same time meet the services that are needed, and I don't believe these can be superficial services such as telephone calls, letters, telegrams relative to late checks, but these must be professional services, special kinds of counselling, special kinds of tutorial assistance, et cetera.

In order to do these things and still increase enrollments, we need financial support. We just can't continue without the Federal moneys from this program. The percentage increase, I am not sure whether we will meet it this year or not. I think probably we will meet it this year. But there will be other large institutions that will not meet the increase.

Mr. O'HARA. The law currently permits the institution to use half of its veterans cost-of-instruction money for general institutional purposes. That is right?

Mr. SHAINLINE. Yes.

Mr. O'HARA. It does?

Mr. SHAINLINE. Yes.

Mr. O'HARA. What do you think of that as a policy matter? Is there any reason why the veterans cost-of-instruction fund should be used for anything other than supporting veterans services?

Mr. SHAINLINE. I don't think it should be utilized for anything other than supporting veterans' services. I think it should be assured that the institution utilizes that money to support its veterans. I don't think we could take that money and support other elements of the university.

This money must be directly related to assisting the veteran, in my opinion.

Mr. O'HARA. Mr. Benitez, do you have any questions for Dean Shainline?

Mr. BENITEZ. Yes. I have two questions.

Following up on this one just made by the chairman, am I to understand that you think the university should not use part of the Federal moneys received for veterans to compensate for the expenses of education of the veterans?

Mr. SHAINLINE. Yes, I feel that the moneys should be used to benefit the veterans whether it is directly on his head or not.

Mr. BENITEZ. The education of veterans as well as the education of any other student is quite an expensive proposition as far as the university is concerned.

Mr. SHAINLINE. Yes, sir.

Mr. BENITEZ. And It would seem that there is an argument to say that the proportionate part of the cost that results from education of the veterans should be utilized in conjunction with the general fund for education.

Mr. SHAINLINE. Yes, I believe all I am saying is that the money's purpose, it seems to me, is to ultimately, no matter how it is used, is to make certain that we give the veterans the assistance that is needed.

I think the assumption is that the young Vietnam veteran particularly needs more support and more assistance and more help than the average student.

Mr. BENITEZ. There is one interesting statistic you submitted here saying that one-half of the veterans, Vietnam veterans, think things are going well with them in their own lives whereas before. Is there any comparable statistic with the other veterans?

Mr. SHAINLINE. The older veterans?

Mr. BENITEZ. Other veterans such as from Korea and other war activities?

Mr. SHAINLINE. We are involved at the present time in trying to do a study which is a most difficult study to complete. We are attempting to do this through our counseling center and our testing office, to try to determine what the difference is between the young Vietnam veteran and Korean veteran or World War II veteran.

It would be an assumption on my part without statistical evidence to back it up but in my opinion a fair assumption is that the younger veteran does have much more adjustment difficulty than the Korean veteran or veteran of World War II.

Mr. BENITEZ. On what do you base that?

Mr. SHAINLINE. The nature of the war, the unpopularity of the war, the fact that those of the Korean and World War II came back feeling like they were some kind of person, their services to their country was appreciated. I don't feel a lot of these people come home with the same attitude that we came home with, either those of Vietnam or even Korea. Many of these young Vietnam Veterans have guilt feelings for taking part in that particular war.

Mr. BENITEZ. There is no comparable study, or is there a comparable study at the time of the return of the veterans from Korea which could be tested against the one to which you have just alluded?

Mr. SHAINLINE. I think there are some studies, although I can't quote them for you now. I remember being involved in helping to write a publication which had to do with the brainwashing business of the Korean veteran, but I don't know of these studies from the Korean war. It is an interesting point.

Mr. BENITEZ. Well, you are testifying then, as far as the veterans from the Vietnam war, that there is this significant difference in well being and in adjustment?

Mr. SHAINLINE. We find that so, yes, sir.

I think you raised a very significant point and, if this study could be done, I think the results would be very interesting.

Mr. BENITEZ. Well, the reason I do ask is I remember when other veterans had returned from other wars and my experience with them was there was always a problem of adjustment.

Mr. SHAINLINE. Yes.

Mr. BENITEZ. But that the problem of adjustment after a while turned out to produce much better students than the non-veteran students at that time. I am just concerned whether that situation has changed significantly or not.

Mr. SHAINLINE. It is my opinion that it has. The veteran needs more of all of the special kinds of services that a university can offer than either the Korean veteran or the veteran of World War II.

Mr. BENITEZ. Would that be the result of the differences in the type of the two wars?

Mr. SHAINLINE. Yes, sir. I would say so. Having been in higher education 28 years I would definitely answer that in the affirmative.

Mr. O'HARA. Thank you, Mr. Benitez.

Mr. Shainline, the staff has called my attention to a new veterans representative program that the Veterans' Administration announced.

What do you know about that and to what extent will that provide some of the services that your office has been providing?

Mr. SHAINLINE. It is very interesting that you asked that, sir, since we had a meeting on Friday last with the two gentlemen from the Los Angeles Regional Office and our staff that works with our Veterans Affairs Office which we have under the Dean of Counseling and Testing, we feel that is the appropriate format from which that Veterans Affairs Office should operate with.

There is much anxiety and concern about this in the State of California in the university and State college system and I think in the university system.

Our meeting was, I must say, delightful with the regional representatives, because the thing that we were concerned about, these are entry level people, young Vietnam veterans, just slightly over comparable age to the students, and I think they are going to be well chosen but they will need further training and experience.

In fact, I think two may be our own graduates. We are interested in the dual line of responsibility to the Veterans' Administration and to the university and the fact that these people would not try to do in-depth counseling and academic counseling, not being trained for it.

However, the approach of Stephen Horn and myself, our President, was not in the negative to this program. We feel the "Vets Rep" personnel can done fail into our ongoing program. This is what we proposed to the Regional Office representatives:

Will you work as a team with us? Can we offer a service to these young people coming in in these entry level positions so we can put them into an orientation program, have them work in our management seminars, have them work in our counseling staff seminars which we have weekly?

So we were delighted with the meeting. They understand that the veterans representatives, "Vet Reps" as they are called, are not going to replace the Veterans affairs people we already have working.

It is a different kind of function. They will perform that function, as I see it, that I referred to very early in my testimony, of the late checks, and the benefits of which there are, as you know, numerous ones; but they will not be serving a dual role or overlapping role with the counseling and advising kinds of programs that the cost-of-instruction funds permit although let me emphasize I don't visualize the Vets Reps program in a negative way as some of the universities do.

Mr. O'HARA. You indicate in your testimony that much of your time, and the time of your office, much of its time has been taken up processing the forms and information necessary for what has become the almost chronic problem of late checks from the VA.

Mr. SHAINLINE. That is correct. That has been going on a lot of the time and I think in time that hopefully these functions will be assumed by the veterans representative. But before you can even work with some of the veterans we have on our campus there has to be a rapport established and there has to be someone there who can establish this rapport.

I believe these veterans representatives, and I think between 2 or 2.5 on our campus, since we are the largest, will be able to pick up some of that or most of that so that we can get down to the business of really educating veterans.

We are talking about education, not the clerical kind of telephone calls and paper processing that we want to do in the 14-point program we have been attempting to do, despite the lack of funding for it.

Now, the veteran needs more, in my opinion, the student veteran needs more, a lot more than just the paper pushing, if I may use that phrase, in getting his money and knowing that there is a benefit out there of a loan and so forth and so on.

I believe that very strongly and my President believes that very strongly.

Mr. O'HARA. Thank you very much, Dean Shainline.

Mr. SHAINLINE. Thank you for providing me with the privilege. Mr. Benitez, my son and wife are going to Puerto Rico to work.

[Letter follows:]

THE CALIFORNIA STATE UNIVERSITY AND COLLEGES,
Los Angeles, Calif., June 13, 1974.

Mr. JOHN SHAINLINE,
Dean of Students, California State University, Long Beach, Calif.

DEAR JACK: I have just learned that you will be in Washington, D.C. next week to discuss the problems associated with the institutional eligibility requirements for funding veterans services through the Veterans Cost of Instruction Program.

In my duties as Veterans Coordinator for the California State University and Colleges, I have worked closely with federal officials administering this program. I must say that I have been favorably impressed with the management and results of the VCIP effort. However, since I must work with nineteen universities and colleges with a total enrollment of 287,105, the nation's largest system of higher education, it is very disappointing for me to understand and justify the inequities in terms of veterans services between our campuses.

Allow me to provide you with some facts based on the number of eligible veterans securing VA benefit checks as of April, 1974:

1. Almost 42% (41.86%) of the veterans enrolled in the California State University and Colleges (15,334 of 36,635) attend institutions that are *not* eligible for VCI funding. These veterans are therefore deprived of the support provided to those who happen to attend campuses that increased their veterans enrollment by 10% from April 192 to April 1973.

2. In Los Angeles County, there are 84,407 students attending college on four state university campuses at Dominquez Hills, Los Angeles, Long Beach, and Northridge. Out of 10,406 VA eligible veterans, 9570 attend Long Beach, Los Angeles and Northridge, representing 91.9% of the total veterans enrollment. *None of these institutions have a VCI program.* Therefore, in California's most populated county, with an employment rate that exceeds the national average, nine of every ten veterans attending a state university or college campus must do without the services available to other veterans on hundreds of college campuses elsewhere.

3. Let us use Long Beach State as an example. With 5874 veterans, you have the largest veterans enrollment in the nineteen campus system. According to the Veterans Administration, Long Beach State has the largest veterans enrollment in California. Our records show that 13.6% of your students are currently re-

ceiving G.I. Bill payments, as compared to a percentage of 13.05% on the thirteen CSUC campuses receiving VCI funds. *But your veterans are denied the services available to so many others.*

I want you to know that you have my full support in your efforts to have Congressmen recognize the need to revise the VCI eligibility requirements.

I am especially concerned about the paucity of services available in Los Angeles County. One out of every four veterans in the state universities and colleges is attending classes on the three non-VCI funded campuses in Los Angeles. As stated above, they represent nine out of ten veterans on the four CSUC campuses in the county.

My best wishes to you in this worthwhile effort.

Sincerely,

David R. Travis,
Assistant Dean, Student Affairs.

Enclosure.

THE FOURTEEN BASIC SERVICES TO VETERANS, VETERANS' AFFAIRS PROGRAM, CALIFORNIA STATE UNIVERSITY, LONG BEACH

Financial.

Financial advice of all kinds.

Emergency loans and loan sources to keep a veteran in school.

Referral to Financial Aids.

Information.—To answer the myriads of questions veterans have about the University, their education, their problems, their benefits, and the other Basic Services. The majority of veterans have little or no idea of the many benefits available to them.

Payments.—Of vital and greatest importance is all the paper and form processing to assure veterans that they will receive their pay checks, and on *time!* This constitutes the overriding concern since the volume of transactions regionally and nationally causes problems in the Veterans' Administration for which we are a processing agency, at the University.

Job Placement.—Veterans need part-time and full-time jobs, since VA allowances are truly minimal. Many veterans have families and hardship problems.

Medical.—Liaison with the nearby VA Hospital is kept, and veterans needing medical help are referred there. Handicapped veterans receive special attention.

Tutorial.—Special tutoring help is available to veterans having academic difficulties and many returning veterans do. Staff counsels and refers to Learning Assistance programs in the University.

Counseling.—Discovery of deeper problems by VAO staff results in appointments made for veterans with professional counsels of the Counseling Center. Ours is a screening function on psychologically or problem-burdened veterans. No in-depth counseling is performed by VAO staff.

Referral.—Other agencies on the campus and in the community can help veterans immensely; but they do not realize or know of their existence. Staff refer veterans to utilize these many already existing services.

Admissions.—Initial inquiries about the University come by the hundreds. Staff is grounded in the fundamentals of admissions to get veterans started on the right track.

Advisory.—Advice ranges from individual attention to a veteran, to informing the departments of veteran services, to acquainting the University Administration with the nature, extent, and statistics of veterans' problems.

RECRUITMENT AND OUTREACH:

Recruitment.—Since veterans are not aware of their educational benefits (only 25% nationally are taking advantage of them), outreach counselors (peer veteran students on half-time employment) go into the communities to see groups of veterans, at community agencies, hospitals, etc., and explain benefits of a college education, our own and others. One objective is to increase our enrollment; the greater income supports all University programs.

Outreach.—Distinguished from recruitment in that many benefits to veterans are not directly educational; e.g., home loans, personal loans, employment opportunities, disability claims, etc. The Veterans' Affairs staff simply cannot cope with the volume and our supplemental services in our area of greater Los Angeles are vital.

Liaison.—Interpreting, informing, researching, attending agency and community meetings, all constitute a vital service.

Centralization of Services.—To serve as a clearing house in our area among agencies and institutions, since veterans transfer to and from colleges, and records and pay checks must follow them. The clearing house function saves many problems, delays, and often tragedies when checks are lost or late.

Personalization.—6,000 veterans on this campus are unique individuals with their problems and burdens, different in many ways from their fellow 25,000 nonveteran students. The veteran is faced with the readjustment to civilian life, usually just as he has completed his adjustment to military life.

If he is either returning to the academic life or facing a campus for the first time, this "civilian adjustment" is further complicated by an "academic adjustment." A personal contact with our staff makes the difference between "turn on and turn off," between disappointment (and a problem to the community) and motivation to make a new life and become a productive member of the community. We have found the services to be essential and appreciated. Our staff is vital to their continuance.

Mr. BENITEZ. That is very nice.

Mr. O'HARA. Thank you.

Our third and fourth witnesses this morning are two highly respected college presidents.

Dr. Howard Bowen, chancellor of Claremont University Center in California, is a nationally known expert on the economics of postsecondary education. A president of a distinguished private institution, and a product of an equally distinguished public institution, Dr. Bowen enjoys the respect of people on both sides of the somewhat sharp controversy between public and private institutions over questions of aid, tuition, and related issues.

Dr. Lewis C. Dowdy, president of North Carolina Agricultural and Technical State University, and the President of the National Association of State Universities and Lnad-Grant Colleges, has a widespread reputation as an articulate and well-informed spokesman with regard to the problems of State institutions, particularly the predominantly black institutions.

I have asked both these gentlemen to talk with the subcommittee about the general financial situation in which institutions of higher education find themselves today and the situation in the context of which cost of instruction and other institutional aid programs have to be considered. If Drs. Bowen and Dowdy will each present their views we can question them both when they have finished.

Gentlemen, if you will please take your places at the witness table, we would like to hear from you.

STATEMENT OF DR. LEWIS C. DOWDY, CHANCELLOR, NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE UNIVERSITY, GREENSBORO, N.C.

Mr. DOWDY. Mr. Chairman and members of the committee I am Lewis Dowdy, chancellor of North Carolina Agricultural and Technical State University and I am pleased to have been invited to give my views on student assistance.

You have my statement before you. I will not read it all but will hit some of the highlights of it.

While I appear before you today as president of the National Association of State Universities and Land-Grant Colleges and as a member of the board of directors of the American Council on Education and the advisory board of Southern Regional Education Board, I do not represent either of these officially.

I have been asked to speak to the question of student assistance and institutional support from the background of my own experience and which will also reflect the views of those in other institutions similarly situated.

Even though I do not officially represent my colleagues of institutions similar to the one I represent, I wish to share some information about these institutions with you.

There are 34 historically black colleges and universities located primarily in the southern region. Of this number, there are 16 land-grant colleges—sometimes referred to as 1890 colleges.

The combined enrollment in these 34 colleges is approximately 110,000, which produces a combined graduating class of about 17,000 per year to be pumped into the bloodstream of our society.

The average parental income of students at these colleges is about $6,000 annually, and about half of the students come from rural areas where a steady level of income is less likely than in urban areas.

It is readily apparent that parents who have sons and daughters in college with this level of income must make a much larger sacrifice and share a greater percentage of their income to finance postsecondary education of their offspring than do parents with higher incomes.

For the past 90 years, these institutions have been training leaders for our great Nation and they face a future of rendering even broader contributions through instruction, service, and research provided fuller financial support is forthcoming from Federal and State sources for both the student and the institution.

Providing low-cost, high-quality education to students of all races is the principal role of these colleges and universities, and they stand ready to serve a broader constituency and new roles as a viable sector and equal partner in the total structure of American higher education.

Now, I turn my attention to each of the separate student assistance programs under title IV and the institutional support program.

THE NATIONAL DIRECT (DEFENSE) STUDENT LOAN

I feel that this program should be continued because it is crucial for students from families with low incomes. In many cases, this is the only loan program that students and parents can turn to because of the provision for interest-free loans during the time the borrower is in school, the low-interest rate during repayment period, and the extended time for repayment, plus cancellation provisions for teaching and military service.

More than half of these loans have been made to students from families with annual incomes of under $6,000. Students who use these loans usually come from a background that would not present a very positive application for borrowing through the guaranteed loan program.

Their families do not, generally, have good credit references and in many cases I have been told that the bank refuses to grant loans even under this plan unless the family can put up collateral.

In addition to this difficulty, repayment under the guaranteed loan plan has higher interest which almost defeats the plan used by most low-income families to provide postsecondary education for their children. It is generally the policy in low-income families to require the first offspring who finishes college to get a job so that he may help defray the expenses of sending other members of the family to college, and this processs continues down the line until all who have the will and ability to go to college finish.

WORK STUDY PROGRAM

The College Work Study program is an excellent program because it provides an opportunity to develop the discipline and the habit of working.

In addition to that, it provides on-the-job training to students because many students work in laboratories and they work in work situations which are closely related to their major areas.

On the other hand, for students who come to our colleges who have had disadvantaged backgrounds and need to spend all of their time in eliminating those deficit areas in their educational background, this program will not work well for them.

GUARANTEED LOAN PROGRAM

The Guaranteed Loan program is of great assistance to the middle- and upper-income families because it provides an excellent source of funds to underwrite postsecondary education for families in these brackets.

Guaranteed loans would not assist low-income families to the extent of the National Defense Student Loan program. In the first place, poor people just cannot see making such a big debt with high interest rates so far in advance of how they are going to pay it back and what they are going to do after finishing college.

Many low-income families find it extremely difficult to borrow under this plan. In many cases the banks require some type of collateral because the families have not had a very glowing credit record. The magnitude of a large debt could be frightening to not only the family but also to the student involved.

In reality, it is possible for two students to get married, graduate from college and face a $20,000 debt with 7-percent interest added before they have bought the first baby crib or frying pan. Then I believe they would go for simultaneous universal suicide.

Therefore, I suggest that the National Defense—Direct—Student Loan program be continued to serve those families that are not in position to benefit from this type of program and the Guaranteed Loan program will continue to serve to assist those families who have the financial resources sufficient to handle this arrangement.

Next, the Supplemental Educational Opportunity Grants.

This program should be continued until we see how the basic opportunity educational grants will work out.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS

The Supplemental Educational Opportunity Grants have served a great need for the very low income families who just did not have the first funds to begin with. This program should be continued until such time as the Basic Educational Opportunity Grants Program shall have been implemented sufficiently through increased funds and better procedures, including increased awareness on the part of the students and parents to take advantage of the Basic Educational Opportunity Grants Program.

Since the Basic Educational Opportunity Grants Program is handled in a different fashion than the Supplemental Opportunity Grants Program, it will take some time for students and parents to adjust to the new procedure. Therefore, I feel that after the 1974–1975 school year the Basic Educational Opportunity Grants Program can very well replace the Supplemental Educational Opportunity Grants.

I am concerned that a $1,400 maximum may not help take care of the cost of education of a student from a low-income family and he has to match or package his funding program; meaning that he would have to go and borrow some money if he can't get it from the guaranteed loan program, then he has nowhere else to turn to.

I am saying we ought to keep alternative means for funding postsecondary education in the student assistance program.

Next, the institutional grants program I heartily endorse because I think that to maintain and to raise the quality of our various educational programs it is necessary to have this general institutional support.

Student support does not underwrite the total cost of the kind of instructional programs that American citizens wish for their sons and daughters.

This need is even greater in the historically black colleges because they are still in the process of overcoming the long years of unequaled support.

With general institutional support I think that these colleges and many colleges that are similarly situated could reach the pinnacle of success in higher education more quickly and close the gap between becoming and being an excellent institution of higher education.

I sincerely endorse the assistance to institutions of higher education as proposed by Congress as necessary and appropriate if we are to continue to look to these institutions as leaders in providing skilled manpower and well trained leadership for our Nation.

The special programs for students from disadvantaged background, that is, the trio programs, which include talent search, upward bound, and special services.

We have had experience with this program and we also worked with the Model Cities program. We have discovered students who never thought they could go to college and now many of them are in graduate schools because they had this opportunity.

We have an 82-percent success in graduate schools from the students who have been in this program.

One concern I have is that in colleges such as the ones I am talking about that do not have large endowment funding programs, where the majority of students have a maximum need factor and where maximum dependency exists on federally sponsored, or sponsored federally assisted programs to gain a succesful education, while I accept the basic grants program as a means to attainment of education the initial year of this program left much to be desired.

With the increase in the level of individual grants for the 1974–75 school year, this aspect of the entitlement concept should be greatly improved.

However, improvements are needed in the application process for this and other kinds of financial assistance programs with similar improvement in the delivery system.

Another concern is one which relates to the matching aspect of the program and the emphasis that has been placed on us of guaranteed loans as a resource for matching with the attendant recommendation for phasing out the national direct student loan program as a matching resource.

I have indicated, I believe, that there ought to be alternative sources to which these students and their parents may turn to secure the require funding.

I heartily endorse, as a means of minimizing the amount of money a student must borrow in order to attain an education, that we continue the equal opportunities program for some time in the future until we find out how the basic opportunities program is going to work out.

Considering the experiences that we have had with several student assistance programs and the comments I have received from time to time from my colleagues in other institutions, I strongly recommend that the present programs be retained so that we may provide alternative funding for different kinds of problems and needs of our students.

In addition, I suggest that a way be found to simplify the present multiple process included in securing financial aid.

I wish to thank the members of this committee and you, Mr. Chairman, for inviting me to appear before you on such an important issue that will not only affect the lives of so many of our citizens but may be the key to continued progress for the greatest nation on the face of the earth.

I close by paraphrasing a statement from John Dewey, "What the best and wisest parent wants for his own child that must the Nation want for all of its children."

Mr. O'HARA. Thank you very much, Dr. Dowdy.

Mr. Bowen.

STATEMENT OF DR. HOWARD BOWEN, CHANCELLOR, CLAREMONT UNIVERSITY CENTER, CLAREMONT, CALIF.

Dr. BOWEN. Thank you Mr. Chairman and Congressman Benitez.

I was asked to provide some long-range perspective on the future financing of postsecondary education, so I shall not speak to particular provisions of proposed bills.

The field is very wide and the time is short so I have chosen to focus on two topics, one being the long-range demand for postsecondary education and the other the financing of the private colleges and universities.

I have prepared some statistical tables which I hope you have before you and I will refer to them as I go along.

Let me begin with an analysis of potential future demand. In my judgment, future demand maybe much higher than is commonly supposed. I would like to begin with population estimates. My first table is simply a census projection to the year 2000. It shows that the total population will increase by about 60 millions, and that the number in the 18-to-24 age group, which is now around 24 and a half million, will reach something like 28 million at the end of the century.

This would increase by about 14 percent.

TABLE 1.—POPULATION ESTIMATES, 1970-2000[1]

[In thousands]

	Ages 18 to 21	Ages 18 to 24	Total population
1970	13,076	22,552	204,879
1975	15,226	25,870	213,925
1980	15,528	27,367	224,132
1990	13,563	23,406	246,639
2000	16,163	27,877	264,435

[1] Source: Bureau of the Census, "Projections of School and College Enrollments 1971 to 2000," Washington: U.S. Department of Commerce, series P-25, No. 143, January 1972, pp. 6-9. "Statistical Abstract of the United States, 1973," pp. 6-7. These estimates assume that on the average women will bear 2.11 children during their lifetimes.

Dr. **Bowen.** But higher educational enrollments are affected by many influences other than population growth and so I have presented in table Z a projection of enrollments in higher education made by the Carnegie Commission. This estimate suggests that in the rest of the century the number of persons in higher education might increase by 56 percent.

TABLE 2.—ESTIMATED ENROLLMENTS IN HIGHER EDUCATION, 1970-2000[1]

[In thousands]

	Number of persons	Full-time equivalents
1970	8,649	6,764
1980	11,670	8,896
1990	11,402	8,502
2000	14,295	10,561

[1] Source: Carnegie Commission on Higher Education, "Priorities for Action: Final Report," New York: McGraw-Hill Book Co., 1973, p. 103. Figures relate to opening fall enrollment, and assume considerable growth of nontraditional study.

Dr. **Bowen.** Now a 56-percent increase in enrollment over 30 years averaging about 1.5 percent a year, would be tiny compared with the actual enrollment growth from 1956 to 1969 which averaged 7.5 percent a year.

But a 56-percent growth from the very large base of 1970 would be far from negligible. It would mean that half as much new college and university capacity would have to be put in place in the next 30 years as exists today. But I don't take these projections too seriously. We all know that demographic projections have a way of going awry. They rest on a lot of assumptions that may or may not prove valid. The demand for higher education is not independent of the supply. The number of students who will be in higher education in the year 2000 will be determined by the number and kinds of institutions available, by the relevancy and attractiveness of the programs they offer, by the convenience of the times and places at which education is offered, by the character of the admissions requirements, by the tuition charges, by the terms of financial aid, by arrangements for released time from work for education, and other conditions that are on the supply side of this market.

It has been demonstrated over and over again that students—both young and old—respond when new institutions are located near their homes, when courses are offered at convenient times, when obsolete admissions requirements are removed, et cetera.

In other words, there is not some given demand to which supply must adjust; rather demand is highly flexible and expansible depending on the kind of education offered and the terms on which it is available.

To illustrate the effect of supply on enrollment, one needs only to point out how different enrollments in American higher education would have been if there had never been a Morrill Act, or a community college movement, or a GI bill.

The high rate of college-going in the United States as compared with many other countries is explained almost entirely by the greater availability of supply in our country.

So projections of enrollments which purport to measure the demand to which supply should be adjusted are by themselves not very useful. An equally relevant consideration is to determine what, in the public interest, should be the supply to which demand can adjust.

If one were to predict enrollment in 2000 on the assumption of a rigid, conventional education with high tuitions and limited student aid and designed primarily for young, male, upper income students, the result would be quite different from that based on the assumption of a diversified education with low fees and liberal student aid and available both to the old and young, offered at convenient times and places, and serving many different classes and backgrounds.

So the upper limit of the number of persons who may participate in higher education is set simply by the number of persons over 18 in the population. It is not even limited by age. Some of the most active learners today are retired people over the age of 65.

The possibilities for expansion are illustrated by some facts about participation rates in higher education today.

For example (see table 3), the number of women attending is more than a million less than the number of men.

TABLE 3.—*Enrollments by sex, 9173–74* [1]

Men	5,393,000
Women	4,270,000
Difference	1,123,000

[1] Source: "The Chronicle of Higher Education," January 14, 1974, p. 10. Figures relate to opening fall enrollment.

Dr. BOWEN. As shown in table 4, the relative number of low-income persons attending is far below that for high-income persons.

TABLE 4.—*Participation rate, persons of age 18 to 24 by family income, 1972* [1]

[Percentage of 18–24-year-olds attending college full time]

Income class:	
0 to $3,000	15
$3,000 to $5,000	19
$5,000 to $7,500	26
$7,500 to $10,000	32
$10,000 to $15,000	41
Over $15,000	56

[1] Source: National Commission on the Financing of Post-secondary Education. Financing Postsecondary Education in the United States. Washington: U.S. Government Printing Office, 1973, p. 27.

Dr. Bowen. Only 15 percent of persons 15 to 24 years of age from very low-income families are attending as compared with 56 percent of those from families with incomes over $15,000.

There are also surprisingly wide variations among the States in college attendance. (See table 5.) If one mentions the extremes, in one State college attendance is 24 percent of the 18- to 24-year-old group and in another it is 59 percent. The national average is 39 percent.

TABLE 5.—ENROLLMENTS AND POPULATION OF AGES 18 TO 24, SELECTED STATES

[In thousands]

	Population [1] of ages 18 to 24 (1970)	Enrollment [2] (1972)	Enrollment as percentage of Population of ages 18 to 24
Arizona	211	124	59
Utah	143	82	57
California	2,447	1,311	54
Oregon	238	123	52
South Carolina	352	94	27
Arkansas	211	54	25
Alaska	46	12	25
Georgia	588	141	24

[1] American Council on Education, "Fact Book on Higher Education," 2d issue, 1973, pp. 73.68-9.

[2] Carnegie Commission on Higher Education, "Priorities for Action: Final Report," New York: McGraw-Hill Book Co., 1973, pp. 101-2.

Dr. Bowen. Now, there is some overlap or double counting when one considers the differences in college attendance by sex, income class, and States. Nevertheless, after adjusting for this overlap, if women would attend at the same rate as men, if low income people could attend at the same rate as high income people, if attendance rates were as high throughout the country as they are in the leading States, enrollment would probably be increased by 6 or 7 million.

And if persons beyond the usual college age began attending in rapidly growing numbers as they show every sign of doing, enrollments would grow even more.

A doubling of present enrollments of 8 million is not out of the question by the end of this century.

One may argue that the upper limit on college attendance will ultimately be set by the number of persons capable of doing college level work, but even this limit is not as rigid as is sometimes supposed.

We have learned over the past several decades that the number of persons capable of doing college work as conventionally defined vastly exceeds our earlier expectations.

The average ability level of high school graduates continuing on to college rose over the period from 1925 to 1961 when our educational system was rapidly expanding. Recently we have begun to dip into lower average ability levels. Indeed the community college exists precisely to expand opportunity to a wider range of students. Nevertheless, there are many indications that millions of young people of high academic ability are still not in college.

The question of what we mean by college level work is also ambiguous. The higher educational system has expanded and offered an ever wider range of both academic and vocational programs.

We look now upon qualification not as meeting some arbitrary level of IQ, but rather as the capacity to benefit from additional education of an appropriate kind whether it be academic or vocational.

No one would argue that a high proportion of the population is qualified for our most selective colleges, and I do not suggest that all institutions should have open admissions. But it may be argued that most people could benefit from postsecondary education if there were sufficiently varied institutions offering suitable programs.

So a basic question facing American society in the remainder of this century is: How much higher education should be offered? This question cannot be answered merely by projecting demand on the assumption that higher education will continue as it now exists.

It must be answered in terms of what amount would be in the long-run public interest if the higher educational system were properly geared up to meet the needs of whatever students would enroll.

I believe that this question will in fact be answered along this line: That it will become the policy of the United States to provide the facilities and encouragement so that the overwhelming majority of our people will be able to develop themselves as human beings to the full extent of their individual potentialities.

Education of this kind will be carried on in many ways, in many different kinds of institutions or settings, and at many different times within the lifespan.

The necessary encouragement will include low tuitions, adequate student aid, appropriate admissions requirements, varied institutions serving many different types of students, released time from work for education, et cetera.

I believe that conventional projections of enrollments greatly understate both what would be desirable participation in higher education and what will in fact be demanded by the American people.

I have developed these ideas at greater length in a paper to be published this summer in the Educational Record under the title "Higher Education: A Growth Industry?" I would be pleased to make this paper available to the subcommittee.

Mr. O'Hara. We would appreciate having it.

Dr. Bowen. I would like to turn now to financing of private colleges and universities.

In doing so I do not mean to ignore the problem or importance of the public sector. I look upon these two sectors as complementary. I would like to point out, Mr. Chairman, that in my own case my entire education occurred in public institutions.

In addition, I have served two of them, one as dean and one as president. I have also served some private institutions. So I am trying to look at this problem from the point of view of all of higher education and the public interest and not as a spokesman for the private sector.

The private nonprofit sector of postsecondary education is in serious jeopardy. At the moment, most private institutions are in a condition described by Earl F. Cheit as fragile stability. Most of them have been able to keep their operating budgets in balance by heavyhanded cost control, rapidly rising tuitions, and energetic fundraising. But their basic position is precarious. Some of the weak ones are disappearing and others are nearing the precipice. The many others whose survival is not in question are in danger of a weakening of their capacity for vigorous progress and leadership.

An abundance of scattered evidence suggests quite firmly that in many institutions current income is not keeping pace with rising costs, that the number of student applicants is declining, that the average academic ability of admitted students is falling and in some cases enrollments are falling, that plant maintenance is being postponed, and that the quality of instruction is being eroded.

The most disquieting feature of the situation is the apparent weakness in student recruitment. The decline in number of applicants is disheartening, not only because students are the raison d'etre of colleges, but also because students bring with them tuitions which are the financial mainstay of almost all private institutions.

The efforts of private institutions to communicate the precariousness of their situation have not been entirely successful. Few colleges have actually gone out of business.

Many of the deficits experienced at the onset of the crisis have, as Cheit shows, been corrected by severe budgetary control and by strenuous efforts to raise money and recruit students.

Most institutions are operating with seeming normality. Few wish to advertise their problems and apprehensions lest it discourage students and donors.

Yet most informed observers judge that the balance is precarious, and that a wave of dire, and perhaps irreversible, distress may be expected for hundreds of worthy institutions within the next 5 years unless appropriate public measures are taken. The problems will of course hit the weaker institutions first, and hardest, but few will be exempt entirely.

The precarious condition of the private sector is in no sense due to its own inadequacies or shortcomings. It has long served, and continues to serve, the country well. Its current distress is due primarily to actions of government which have been wholly beyond the control of the private sector. The basic problem is that private higher education has been subjected to radical increases in competition from the heavily subsidized public sector.

Hundreds of new public campuses have been established, many of them in the vicinity of long-established private colleges. And the gap between private and public tuitions has steadily widened. Private higher education is in a position like that of a successful business which suddenly faces a worthy competitor which is subsidized by government and is able to sell its product at one-fourth of cost.

The private sector can survive with a significant cost differential, but it cannot survive with a differential which averages nearly $2,000 per annum for each student in institutions of comparable type especially when the gap is widening every year.

The damage is not yet irreparable. The means for dealing with the problem are at hand and well within the capacities of the country. But a time of crisis is approaching, and the Nation needs to take a stand on the question of the future of the private sector.

In my judgment, the case for maintaining and strengthening the private sector is a compelling one. I shall not try to develop this case in detail. I am sure you are aware of it, but it is outlined in table 6. Table 7 shows the number of private institutions of various types and their 1970 enrollments.

TABLE 6.—*The significance of private higher education*

1. Adds to diversity of institutions to serve varied clienteles.
2. Provides healthy competition for public sector of higher education.
3. Is an important base of academic freedom.
4. Includes many institutions of outstanding excellence and therefore of educational and intellectual leadership and standard-setting.
5. Helps to keep liberal learning vigorous and influential.
6. Espouses a philosophy of education emphasizing human scale and concern for individual students.
7. Saves taxpayers at least $3 billion.

TABLE 7.—PRIVATE COLLEGES AND UNIVERSITIES IN THE UNITED STATES, NUMBER AND ENROLLMENT, BY TYPE, 1970

	Number of institutions	Enrollment (thousands)
Doctoral-granting institutions:		
Leading research universities	22	254
Other major research universities	13	112
Other doctoral-granting universities	30	299
Comprehensive universities and colleges	145	523
Liberal arts colleges:		
Selective	144	180
Other	547	467
2-yr colleges	256	134
Separate specialized professional schools	357	180
Total	1,514	2,150

Source: Carnegie Commission on Higher Education, "A Classification of Institutions of Higher Education," Berkeley, 1973, pp. 6-7.

Dr. BOWEN. I would point out that there are 1,500 institutions enrolling over 2 million students. I think it is one indication of the value of the private sector that there are 2 million students attending despite the $2,000 extra they must pay in average tuitions as compared with the tuitions in the public sector.

Turning to table 8, for many years prior to 1950, enrollments in higher education were divided about equally between the public and private sectors.

But since 1950, which seems to have been kind of a turning point, private enrollments have been relatively static while public enrollments have been growing, so the relative position of the private sector has declined rapidly.

The percentage of students in private institutions is now about 24 percent of the total and is still falling. The influence of the private sector continues to be substantial, but this influence cannot be sustained if the percentage falls to 10 or 15 as it may well do without corrective action.

TABLE 8.—ENROLLMENT IN PRIVATE INSTITUTIONS AS PERCENT OF TOTAL ENROLLMENT, UNITED STATES, 1950-73

	All institutions	4-yr institutions
1950	50	53
1955	44	48
1960	41	45
1965	34	38
1970	27	32
1973	24	30

Source: American Council on Education, "A Fact Book of Higher Education, Washington," 1974, pp. 9, 15. Refers to degree-credit students.

Dr. Bowen. The deteriorating condition of the private sector is illustrated in several of the tables that I have presented.

Table 9 shows changes in the sources of income over a long period of time. Tuition income is relied upon more heavily than formerly, endowment income is a declining share of the total, and increasingly, private colleges are relying on current gifts for their operations with the result that gifts which might otherwise have been added to endowments have to be spent for current operations.

TABLE 9.—SOURCES OF EDUCATIONAL INCOME, PRIVATE INSTITUTIONS OF HIGHER EDUCATION, UNITED STATES, 1929-30 TO 1970-71

[In percent]

	Tuitions and fees	Government	Endowment	Current gifts	Total
1929-30	57		31	12	100
1939-40	57	4	25	14	100
1949-50	42	[1] 31	13	14	100
1959-60	59	5	14	22	100
1965-66	64	9	10	17	100
1970-71	64	9	9	18	100

[1] GI period.

Source: Carnegie Commission on Higher Education, "Higher Education: Who Pays? Who Benefits? Who Should Pay?" New York: McGraw-Hill, 1973, pp. 22-23, 136-61. Excludes Federal grants for research and public service, gifts designated for student aid, auxiliary enterprise income, and other income.

Dr. Bowen. Table 10 compares public and private tuitions and shows the widening ratio between the two. The ratio used to be in the order of 3 to 3½ to 1; it is now about 4½ to 1. The absolute dollar gap, which is more important to family decisions than the ratio, is now in the neighborhood of $2,000.

TABLE 10.—AVERAGE TUITIONS, SELECTED PRIVATE AND PUBLIC INSTITUTIONS, UNITED STATES, 1927-28 TO 1973-74

	Large universities				Medium-sized 4-yr institutions			
	20 public	14 private	Dollar gap	Ratio: private to public	12 public	14 private	Dollar gap	Ratio: private to public
1927-28	$77	$267	$190	3.5	$86	$206	$120	2.4
1935-36	101	320	219	3.2	116	277	161	2.4
1947-48	130	442	312	3.4	157	415	258	2.6
1955-56	181	712	531	3.9	202	661	459	3.3
1963-64	290	1,339	1,049	4.6	307	1,257	950	4.1
1971-72	549	2,353	1,804	4.3	552	2,288	1,736	4.1
1973-74	556	2,523	1,967	4.5	605	2,501	1,896	4.1

Dr. Bowen. Table 11 compares tuitions with per capita disposable income—per capita disposable income is one measure of family income. It shows that private tuitions have been rising more rapidly than per capita disposable income, and therefore that a steadily higher percentage of family income is necessary to keep students in private colleges. This is not so for public institutions.

TABLE 11.—AVERAGE TUITIONS AS PERCENTAGE OF DISPOSABLE INCOME PER CAPITA, 1927-28 TO 1972-73

	Public institutions			Private institutions		
	20 large	14 medium-sized	All	14 large	14 medium-sized	All
1927-28	12	13		40	31	
1935-36 [1]	20	22		62	54	
1947-48	10	12		34	32	
1955-56	10	12	[2] 10	41	38	[2] 34
1963-64	13	13	10	59	55	44
1971-72	14	14	10	62	60	47
1972-73	14	13	9	63	58	46

[1] Depression years.
[2] 1956-57.

Source: American Council on Education, "A Fact Book on Higher Education," Washington, 1973, pp. 155-57; U.S. Office of Education, "Projections of Educational Statistics," Washington: U.S. Government Printing Office, various annual editions e.g., 1971, pp. 106-7.

Dr. BOWEN. Table 12 presents figures on institutional cost per student in selected private institutions in both current and constant dollars. The constant dollar figures reached a peak in 1971 at $2,075 and have since been declining.

Further declines, which are imminent, will begin to cut into quality of education in the private sector.

TABLE 12.—EDUCATIONAL AND GENERAL EXPENSES PER STUDENT, IN CURRENT AND CONSTANT DOLLARS, 48 PRIVATE LIBERAL ARTS COLLEGES, 1964-73

	Current dollars	Constant dollars
1964	$1, 849	$1, 849
1965	1, 955	1, 874
1966	2, 049	1, 870
1967	2, 228	1, 396
1968	2, 387	1, 968
1969	2, 580	1, 995
1970	2, 835	2, 048
1971	3, 026	2, 075
1972	3, 138	2, 056
1973	3, 282	2, 036

Source: G. R. Wynn, "At the Crossroads: A Report on the Financial Condition of Forty-eight Liberal Arts Colleges," Ann Arbor: University of Michigan, 1974.

Dr. BOWEN. Finally, table 13 gives some history of deficits in the operating accounts of selected private colleges. It shows that through budgetary discipline, the deficits of a few years ago, which reached a high in 1970, have largely been brought under control. Thus, the problem is not wanton disregard of budgetary discipline, because their budgets on the whole tend to be in order.

TABLE 13.—OPERATING DEFICITS AMONG 48 PRIVATE LIBERAL ARTS COLLEGES, 1965-73

	Number of colleges having deficits	Total amount of deficits (in millions)
1965	5	$0. 2
1966	9	. 5
1967	17	1. 1
1968	21	2. 1
1969	25	3. 8
1970	29	8. 9
1971	22	8. 3
1972	11	2. 0
1973	11	1. 1

Source: G. R. Wynn, op cit., p. 7.

Dr. BOWEN. To summarize, these figures depict not a full-blown crisis but impending trouble.

The solutions are fairly straightforward. First and foremost, they require a narrowing—not an elimination but a narrowing—of the tuition gap between public and private institutions. This could be done by raising tuitions in public institutions. In my judgment this would be the wrong way to go about the problem. Public tuitions should be low, and access to higher education should be easy, in order to encourage persons of all classes to develop their full potentialities through education.

A better way would be to lower private tuitions. This could be done in any of several ways: through aid to private tuitions, through student aid programs that would provide grants of larger amounts for students of private institutions than for students of public institutions.

The GI bill after World War II operated on this principle, and it was one of the most successful programs in the whole history of American higher education.

The plan I prefer would be flat grants to students of private institutions equal to about half the average subsidy per student in public institutions.

But the precise mechanics are less important than that the tuition gap be substantially narrowed without at the same time hampering public institutions.

A question is whether the Federal Government or the States should be responsible for narrowing the tuition gap. Perhaps the most efficient way would be the Federal route. However, as higher educational policy is evolving in this country, State governments do assume basic responsibility for the institutions of higher education, and many States are already providing aid to the private sector in one form or another. And so it may be argued that the States should take responsibility for the health and survival of private higher education.

The State solution does have two disadvantages. First, the States differ greatly in the extent of their aid to the private sector. The national situation is therefore spotty, uneven, and inequitable.

Second, the States with few exceptions give aid only to resident students who attend instate institutions. This practice discriminates against the many private institutions with regional or national clienteles and tends to promote an unhealthy provincialism in higher education. There is need for Federal intervention to overcome these problems.

My recommendations would be: (*a*) That the States be given major responsibility for the health and survival of the private sector; and (*b*) that the Federal Government provide substantial grants to the States conditional upon approved programs of aid to private institutions including adequate assistance overall and provision for students who attend out-of-State institutions.

I should like to mention several other recommendations for strengthening the position of the private sector.

Because time is running out, I shall do so without comment, but here is a series of recommendations I regard as very important.

(1) Maintain and strengthen those provisions of the tax laws which provide incentives to charitable gifts; (2) create a national stu-

dent loan system with adequate capital and suitable terms as a supplement to, not a substitute for, tuition offsets.

I would like to support what Chancellor Dowdy has said, that loans are not the answer to this problem except in a peripheral and supplemental way.

(3) Restore a reasonable number of graduate fellowships and a reasonable level of grants for basic research; (4) develop means of financing lifelong and recurrent education that will encourage both new and traditional institutions to enter this field, and that will enable people of all ages and conditions to participate; (5) continue to assist developing institutions to strengthen their programs; (6) encourage statewide planning that takes the interests of private institutions into account but without destroying their initiative.

I would like to close by mentioning that a major report entitled "A National Policy for Private Higher Education" is near completion and will be presented to Congress, State legislatures, and the public this coming fall. It is being prepared under the auspices of the National Council of Independent Colleges and Universities, and close collaboration with the Association of American Colleges.

I believe this report, which will develop many of the topics that I simply alluded to, will be worthy of your most careful consideration.

Thank you, Mr. Chairman.

Mr. O'Hara. Thank you very much, Dr. Bowen.

Dr. Dowdy, there has been some discussion and I noticed you observations with respect to the differences between the guaranteed loan program and the direct student loan program and your feeling that the one produced greater access than the other.

Dr. Dowdy. That is right. In my institution, we had 267 persons who were able to secure guaranteed loans as opposed to approximately 1800 others who participated in some form of student assistance, either work-study or college work study, NDSL program.

Twelve hundred forty-eight persons participated in "NDSL."

Mr. O'Hara. One of the suggestions that has been before the committee is that perhaps institutions become lenders under the guaranteed loan program. We had a gentleman from the First Chicago Corp. who reported on the experience of his enterprise.

He was making funds available to institutions who qualified as lenders under the guaranteed loan program. Have you looked into that possibility at all? Do you have any observations on that?

Dr. Dowdy. I have not looked into that, but I can speak to it. I believe that would be better and more favorable to the parents and students who use these, because they are used to working with institutions in the first place.

In the second place, when they have to write to Washington for a grant, they are not used to doing that kind of thing. I think that the needs analysis could be done right there on the campus and cut down on some paperwork that is being done now. That is the shifting backward and forward of the applications and needs analysis forms.In fact, I suggest that it be a composite application including the needs analysis, which could be done to simplify things. I think that would be a much better way.

Mr. O'Hara. One of the criticisms of that proposal has been this: It would increase the default rate, the criticisms of the system say.

They say if a student goes into a bank to borrow money, he gets in there in that cold marble-walled and marble-floored building and the flinty-eyed vice president and he really appreciates he has a loan that has to be repaid. But when he is in with his friendly student financial assistance officer, who is giving him a lot of fast talk about work-study, supplemental grants and basic grants and the loan, that he doesn't seem to differentiate these as well and he is more apt to a defaulter, because he does not really get impressed, or it is not impressed upon him what his obligations are.

Dr. Dowdy. I don't know whether there is a big difference between that. We employed a bank to collect ours and it appears to me we have been able to do a little better than the bank itself. In fact, we changed the contract now back to the college because with the Attorney General's office sending letters out, we have been able to do a little better job.

Mr. O'Hara. That is a pretty good collection device.

Another of the criticisms—well, I guess this is sort of encompassed within the other—they say if the student is unhappy, if he leaves school before completing his education or something, if for some reason or other the educational experience did not meet his expectations and he owes the money to the school, he has a different attitude toward it than he does if he owes the money to a bank. But I don't know. You know, when you go into one of these "nothing down" furniture places and you are not happy with the furniture, that is just too bad, because the collection agency—they right away sell that paper and somebody is after you and your attitude does not make much difference.

Mr. Dowdy. I don't think so either. I think we have to sharpen our collection business with new methods on this. I have even thought about following the other route, that is, "What do you do when you don't pay your taxes?" You know what happens in that case. We can only guarantee a check for one of our employees when they owe State taxes or Federal taxes.

Mr. O'Hara. That is a pretty tough creditor, the Government.

I think, if I could sum up your testimony, it is that we have a variety of programs and that we involve the institutions and the student financial aid officer, who works directly with the student in these programs.

Dr. Dowdy. Absolutely.

Mr. O'Hara. Different students have different needs.

Dr. Dowdy. Right. Different families have different financial needs for postsecondary education. Some can pay the money back over a period of time and some cannot. You see, brainpower does not necessarily follow the rich, you know. We found very fine brainpower in the poverty-stricken areas. I think that could be developed, too.

So if we had a basic opportunity grant of $1,400 and he is an out-of-State student that costs $3,000 to come to that school and where is he going to get the other money? He needs $1,600 more.

Mr. O'Hara. Dr. Bowen, you have talked of tuition grants as a possibility for private institutions and you have said that your own personal preference is for a tuition grant in the amount of 50 percent of the State subsidy to a student in a public school.

Dr. Bowen. Yes.

Mr. O'Hara. I wonder how much good that does? We have about half of the States, I guess, well, a number of them anyway who are presently involved in tuition grant programs and there is quite a variation among tuition grant programs, but do you know of any evaluation of these programs that has been done, under experience under these programs that would suggest just how much good they have been doing in terms of preserving the student status?

Dr. Bowen. I do not know a single study, but I know of a good deal of evidence State by State. The program I happen to like the best is in Georgia, where the student in a private institution is given a grant of $400 without a needs test and the money is disbursed to the college or university, which then credits the student's tuition. This is a direct narrowing of the gap.

The institutions of Georgia report to me that this has made a great difference to them in their capacity to attract students because it significantly narrowed that differential.

Maryland has recently embarked on a program which solves the problem that I referred to about the interstate barriers to the movement of students. I understand the Maryland program, which has just been enacted, is going to pay the private institution for each student enrolled regardless of the residence of the students. Since students now attain their majority at age 18, the question of residence becomes a sticky one in any case, so in Maryland they have just bypassed that problem and will take care of whatever students go to school in that State.

Some other States have provisions which will permit resident students of the State to go to private schools outside of the State, with some kind of an amount.

California has a program based on State scholarships which pays, with a needs test, up to the tuition of the institution selected by the student. If he goes to a private instituion, he is eligible for more money than if he goes to a public institution.

I can testify that this program has been enormously useful in California, but it has one great disadvantage. Because it is based on scholarship, only the top 3 or 4 percent of the students are eligible. It means that those institutions that attract students of that caliber get much more benefit than students of institutions that are not quite so selective. I would rather see a program that was less selective in its character.

So, I think I could say unequivocally that in several of the State programs significant aid has been achieved, but the funding level on the whole is very inadequate.

Mr. O'Hara. Dr. Bowen, I can see justification for California, being a little less generous in terms of priavte institutional tuition grants than another State, for instance, which might not devote nearly as much money to making low-cost public higher education opportunities available. California certainly goes further in that direction than just about anybody else.

They say, "Well, look, we have made all of these public higher education opportunities available to you. Now, if you choose to avail yourself of these, but instead want to go to a private institution, you are going to have to show us some reason why we ought to make that kind of additional investment on your behalf."

Dr. Bowen. There are two possible arguments, however, that one might present on the other side. If one looks upon the private sector, at least as I do, as important because it provides competition for the public sector, then a State like California, where private institutions represent a very small percent of the enrollment, they must be kept going and must be kept strong. Otherwise, higher education becomes a kind of monopoly of the public sector, of the body politic.

So I would argue that California in some ways has more interest in keeping that private sector healthy than, say, Massachusetts, which has a larger private sector.

The private institutions, I think, also have a very important place in reducing the tax burden on the State. For example, there are more than 2 million students in private institutions. If you multiply that by the average subsidy in the State institutions, which is about $1,400, you get relief to the taxpayers of about $3 billion from this operation. When we are arguing for only a partial subsidy for the private institutions, this becomes something of a bargain from the standpoint of the taxpayer.

Mr. O'Hara. I can see some justification for one State, or for a State that does more in terms of public higher education, doing a little less for private and vice versa; in other words, perhaps some other State, maybe in the Eastern States, that does not do as much for public institutions might choose even more.

Dr. Bowen. I think you can argue it in different ways. I would say that it is in the national interest to have at least a quarter of higher education under private auspices, just in terms of diversity of control and of types of institutions and for other reasons that we are all aware of.

Mr. O'Hara. I have been an advocate of making it possible for people to go on to higher education without cost or at very low cost. Have you done any costing out of any of the programs you have suggested?

Dr. Bowen. Well, I think the tuition offset, if it were placed at one-half of the subsidy to students at the State institutions, which would be about $700, would cost net about $1 billion. The gross cost would be perhaps $1.4 billion. But the net cost would be less because of savings in other student aid programs.

Mr. O'Hara. That is without putting any money into public education?

Dr. Bowen. Yes, but part of this is offset by the fact that if you are giving money in this form, it would reduce the amount that would have to be given the various aid programs so the net figure would be around $1 billion. That would be for giving every student in a private institution of the United States a tuition grant of about $700.

Mr. O'Hara. Mr. Benitez, do you have any questions?

Mr. Benitez. I have no questions, but I may say to Mr. Bowen that the method he is arguing for is the one that exists in Puerto Rico today. The Government of Puerto Rico provides subsidy for every poor student who goes to a private university and pays up to 80 percent of their tuition costs and in Puerto Rico, of course, the University of Puerto Rico is the largest source of student attendance and it works out quite well and as a matter of fact, what the private schools received under this arrangement is something like $800 per student.

But, coming to your statements, I think that both of you have made extremely valuable contributions and the only thing I regret is that the bell will be ringing in a few minutes. But I do want to say this concerning your presentation: Really the first part of your statistical work seems to me very valuable and credible, because it indicates that the future of higher education turns much more in the opportunity, and it is this opportunity that determines the amount. It is a matter of the supply and the ability to supply and, as you say, the land-grant colleges and public universities have proved this quite abundantly.

But the real reason, or the real problem is "how adequate higher education will continue to be or will achieve in terms of the changing society which universities face today?" At the same time that we are having this enormous increase in educational opportunity, I think we are seeing an overall diminution in the appreciation for and possibly the effectiveness of higher education. There is a very serious trend of skepticism in universities themselves concerning the insight of education on personal development and personal advantage, so my question to you is this:

Are there comparable studies to your statistical ones pertaining to how best to attune the offerings to the needs?

Dr. Bowen. Well, the bell is ringing very loudly and I get the point, but I feel that the alleged decline in interest in higher education is a kind of temporary phenomenon. From my understanding of what little evidence there is and my own feeling about how people are responding, I conclude that the demand is still very high.

I know very few families who do not want their children to go to college.

Mr. Benitez. Excuse me. The point I was trying to make is not that there continues to be an interest in going to college.

Dr. Bowen. Yes; but I want to carry on. I think the meeting of this demand is the greatest challenge that faces higher education, much more than the financial challenge. Educators must find the way of adapting higher education to this new opportunity that exists in the balance of this century—when we are going to be carrying this system from one that represents a minority of participation to one which represents perhaps universal participation over much of a lifetime. The higher educational community is just beginning to visualize these possibilities and adjust to them. They are far short at this point of knowing how to cope with the problem.

I mentioned at the end of my statement one topic that I feel very strongly about; namely the nontraditional student in adult education and recurring education. Virtually nothing is known about how we are going to finance this kind of education or how we are going to finance the students who are in it.

Mr. Benitez. No; my concern, or rather my feeling is that the problem really would not be the financing, but the problem is the adequacy. The problem is "how well education will continue to serve a very changing society."

Dr. Bowen. I agree with that fully.

Mr. Benitez. And I think at the universities at present there is less concern over that particular decisive responsibility, which, in my judgment, is the first one.

Dr. Bowen. I will agree. I am not disagreeing in the least with what you are saying. I would say that there has been a good deal of thought on this problem. For example, there has been the Commission on Nontraditional Study, which carried on its work and has had considerable influence and you find many efforts in the colleges and universities, but I would not disagree with your fundamental point.

Mr. BENITEZ. I would hope that my former colleagues concentrate as much on the changing and lasting purposes of universities as on the financing of universities.

Dr. BOWEN. I agree. Very good.

Mr. O'HARA. Thank you very very much, Mr. Benitez.

Thank you, Dr. Dowdy and Dr. Bowen. We enjoyed very much having you here today.

A statement has been filed by the American Legion with respect to the veterans' cost of instructional program and without objection it will be entered into the record.

In addition, I have before me today a statement coming from the American Association of State Colleges and Universities, which happily lends some support to my reiterated belief that low tuition is the essential element in a higher educational system, and without objection the statement from the American Association of State Colleges and Universities, which contains a report of a study done by Dr. Jacob Stampen, director of special projects at the University of Wisconsin System, will also be made a part of the record at this point.

[Statements follow:]

JUNE 4, 1974.

Hon. CARL D. PERKINS,
Chairman, General Subcommittee on Education, House Committee on Education and Labor, Washington, D.C.

DEAR CHAIRMAN PERKINS: Enclosed is a statement of The American Legion on the amendment to Section 420 of Public Law 91–230 as contained in S.896 with reference to the Veterans Cost of Education Program.

We hope you will keep the Legion's views in mind as you meet with Senate conferees to work out the differences in your bill (H.R. 69) and S.896, the Education Amendments of 1974.

Your continued cooperation with The American Legion is appreciated.

Sincerely yours,

HERALD E. STRINGER,
Director, National Legislative Commission.

Enclosure:

STATEMENT OF THE AMERICAN LEGION

This is a statement of The American Legion's position on Section 11 of S.896, a bill to extend the provisions of the Education of the Handicapped Act (Public Law 91–230) for three years beginning July 1, 1973.

Section 11 of S.896 would amend paragraph (1) of section 420(a) of the Higher Education Act of 1965, as amended, to allow an institution to be eligible for Veterans Cost of Instruction payments if 10 percent of its current undergraduate body is composed of GI bill trainees.

Under the existing provisions of section 420, an institution of higher education is eligible for a veterans cost of instruction payment for each undergradute veteran who is receiving Veterans Administration assistance under the veterans educational assistance or vocational rehabilitation programs, provided the institution increased its veteran-student enrollment by at least 10 percent over the previous academic year.

An institution of higher education shall be eligible for these payments on application to the Commissioner of Education, and set forth such plans, policies, assurances, and procedures as will insure that the applicant will make an adequate effort—

(1) to maintain a full-time office of Veterans Affairs which has responsibility for veterans' outreach, recruitment, and special education programs, including the provision of educational, vocational, and personal counseling of veterans.

(2) to carry out programs designed to prepare educationally disadvantaged veterans for post secondary education (a) under subchapter V of chapter 34 of

title 38, United States Code, and (b) in the case of any institution located near a military installation, under subchapter VI of such chapter 34,

(3) to carry out an active outreach, recruiting and counseling activity through the use of funds available under federally assisted work-study programs, and

(4) to carry out an active tutorial assistance program (including dissemination of information regarding such programs) in order to make maximum use of the benefits available under section 1692 of such title 38 (VA tutorial assistance of $50 a month and up to a maximum of $450, upon certification by the educational institution that such assistance is necessary for the veteran to complete such programs successfully.)

Under the language of section 420, no less than 50 percent of the veterans cost of instruction payments are to be used for the foregoing.

On May 6, 1974 the Veterans Administration established an on-college and university campus program to provide assistance to Vietnam Era veterans and provide needed liaison with school officials.

This on-campus service will be provided by assignment of full-time Contact Representatives designated as Veterans Education and Training Representatives (Vet Rep). A full range of Contact Representative duties and responsibilities will be performed with special emphasis on the following functions—

(*a*) Answers complex questions relating to VA educational assistance benefits and takes action to resolve individual payment inquiries where information from the VA regional office is needed before an answer is given;

(*b*) Assures correctness and proper handling of applications, completion of required certifications of attendance and submission of required information in support of a claim for benefits;

(*c*) Maintains liaison with school officials through regular contact and discussion of VA educational assistance;

(*d*) Supervises the delivery of advance payment checks, resolves check problems and promptly takes action to prevent or reduce overpayments by taking immediate corrective action;

(*e*) Counsels veterans indicating an intent to stop schooling, to motivate their continuance and citing assistance avenues available, i.e., tutorial assistance, etc.;

(*f*) Conducts outreach to campus community, locating school dropouts, and endeavoring to get veterans back in school;

(*g*) Coordinates VA matters with on-campus veterans groups, providing briefings in salient subjects;

(*h*) Maintains liaison with campus news media to alert veterans of changes in law, procedures or VA policies;

(*i*) Assists veterans in providing necessary documentation relative to changes in status—marriage, birth, etc.—which affect benefit payments, or with changes in program, address, etc.;

(*j*) Provides guidance and support to work-study personnel assigned to the campus.

During discussions at our 1974 National Veterans Affairs and Rehabilitation Conference and Commission meetings the consensus developed that personnel assigned by institutions of higher learning to an on-campus office of veterans affairs were not qualified to advise veterans on benefits and services administered by the Veterans Administration.

As a consequence our National Executive Committee on May 2, 1974 approved Resolution No. 42 urging—

"that The American Legion sponsor and support legislation to amend section 420 of Public Law 92-318 to provide that the Administrator of Veterans Affairs be charged with the responsibility of establishing Veterans Counseling Offices on campuses of those colleges and universities that qualify for the veterans cost of instruction program payment and that the funds authorized and appropriated under such section be used by the Administrator of Veterans Affairs to provide full-time trained personnel to counsel and assist veteran students in their claims for benefits and services administered by the Veterans Administration, as well as other Federal and State agencies."

In view of the fact that the Veterans Administration has initiated its own on-campus program to service Vietnam Era veterans, the continuation of the veterans cost of instruction payments program, as presently established under section 420 of Public Law 92-318, is a duplication of the government's veterans on-campus programs.

The Congress is presently considering legislation which will significantly add to payments of educational assistance and vocational rehabilitation program payments. This in itself may add stimulus for institutions of higher learning to recruit and retain Vietnam Era veteran students.

The American Legion urges that section 420 be amended so as to provide that all counseling on benefits and services shall be restricted to the responsibility of the Administrator of Veterans Affairs.

Attached is Resolution 42 of the May 1–2, 1974 National Executive Committee meeting of The American Legion, and DVB Circular 20–74–72, dated May 6, 1974 (VA On-Campus Program).

NATIONAL EXECUTIVE COMMITTEE MEETING OF THE AMERICAN LEGION, MAY 1–2, 1974

Resolution No. 42.
Commission: National Veterans Affairs and Rehabilitation.
Subject: Sponsor and support legislation to amend Section 420, Public Law 92–318, to provide that college and university veterans counseling officers shall be staffed and controlled by the Veterans Administration.

Whereas, section 420 of Public Law 92–318 established a Veterans Cost of Instruction Program (VCIP) for a three-year period based on a veteran student increased enrollment formula; and

Whereas, the purpose of the VCIP was to encourage colleges and universities to enroll veteran students eligible for Veterans Administration educational assistance and to use all institutional facilities and personnel to encourage veterans to complete their enrollment objectives; and

Whereas, a portion of the VCIP payment ($300.00 per enrolled veteran student) must be used to estabiish on the institution campus a Veterans Counseling Office to carry out the purpose of Section 420, that is, tutorial assistance, counseling, Veterans assistance and services, etc.; and

Whereas, it has been the experience of The American Legion that personnel assigned to the Campus Veterans Counseling Office are not qualified to advise veterans on benefits and services available to them under laws administered by the Veterans Administration and by other Federal and State agencies; now, therefore, be it

Resolved, By the National Executive Committee of The American Legion in regular meeting assembled in Indianapolis, Indiana, on May 1–2, 1974, that The American Legion sponsor and support legislation to amend Section 420 of Public Law 92–318 to provide that the Administrator of Veterans Affairs be charged with the responsibility of establishing Veterans Counseling Offices on campuses of these colleges and universities that qualify for the Veterans Cost of Instruction program payment and that the funds authorized and appropriated under such section be used by the Administrator of Veterans Affairs to provide full time trained personnel to counsel and assist veteran students in their claims for benefits and services administered by the Veterans Administration as well as other Federal and State agencies.

DEPARTMENT OF VETERANS BENEFITS,
VETERANS ADMINISTRATION,
Washington, D.C., May 6, 1974.

VA ON-CAMPUS PROGRAM

1. Under jurisdiction of Veterans Services Divisions an on-college and university campus program will be established to provide assistance to Vietnam era veterans and provide needed liaison with school officials.

2. This on-the-scene service will be provided by assignment of full-time Contact Representatives organizationally designated as Veterans Education and Training Representatives (Vet Rep). Full range of Contact Representative duties and responsibilities will be performed with special emphasis on the functions described below (which may be attached to existing position descriptions as an Addendum): "Incumbent serves as veterans education and training representative (Vet Rep) on campuses of institutions of higher learning, representing the VA on all matters or subjects under VA jurisdiction and emphasizing the following:

(*a*) Answers complex questions relating to VA educational assistance benefits and takes action to resolve individual payment inquiries where information from the VA regional office is needed before an answer is given;

(*b*) Assures correctness and proper handling of applications, completion of required certifications of attendance and submission of required information in support of a claim for benefits;

(*c*) Maintains liaison with school officials through regular contact and discussion of VA educational assistance;

(*d*) Supervises the delivery of advance payment checks, resolves check problems and promptly takes action to prevent or reduce overpayments by taking immediate corrective action;

(*e*) Counsels veterans indicating an intent to stop schooling, to motivate their continuance and citing assistance avenues available, i.e., tutorial assistance, etc.;

(*f*) Conducts outreach to campus community, locating school dropouts, and endeavoring to get veterans back in school;

(*g*) Coordinates VA matters with on-campus veterans groups, providing briefings in salient subjects;

(*h*) Maintains liaison with campus news media to alert veterans of changes in law, procedures or VA policies;

(*i*) Assists veterans in providing necessary documentation relative to changes in status—marriage, birth, etc.—which affect benefit payments, or with changes in program, address, etc.;

(*j*) Provides guidance and support to work-study personnel assigned to the campus."

3. We contemplate that journeyman level of GS-9 will eventually be appropriate in most locations. Lower grade level positions may be established for assignments not reflecting full range of duties and responsibilities and supervisory or incharge positions may be established where required.

4. Imperative that immediate steps be taken to identify and select fully qualified individuals for assignment to these positions. Although we anticipate that a significant number of these new positions will be filled from among on-duty employees, it is recognized that aggressive recruitment action will be required to either replace employees selected for such assignments or for direct assignment to these positions. Whatever the source may be, we must assure that those selected to work on campus are knowledgeable, capable of effectively communicating and establishing empathic relationships with Vietnam era veterans, and properly motivated to be fully responsive to veterans whom they serve. In seeking out candidates from outside the VA maximum efforts will be made to recruit suitably qualified Vietnam era veterans. Timetable calls for employees to be physically present at their duty stations (on the campuses) by early August, preferably about August 1. Recruiting, therefore, must begin immediately so the months of May and June will be productive in filling these positions and in bringing new employees on duty during these months in order that appropriate training can be completed on timely basis. Although not all inclusive, the following recruitment and placement sources are suggested:

(*a*) Many positions may be filled under your station promotion plan or through other inservice placement actions. You should publicize these opportunities to employees so those qualified and interested may apply. In addition, it may be necessary to seek out highly qualified individuals and encourage their acceptance of these assignments.

(*b*) In making requests for certificates from FSEE register, follow the provisions of DVB Circular 20–74–34, dated April 19, 1974. Requests for certification at GS-8/9 levels from mid-level register will also include request for certification based on Vietnam era service as a quality ranking factor (SF 39A not required).

(*c*) Individuals on college campuses now engaged in full-time work with veterans and their problems should not be overlooked as source of candidates.

(*d*) Other sources of candidates include State employment offices, local VA non-DVB stations, contacts with service organizations, business and community leaders, minority groups, military separation centers, etc. (Division program employees should participate with the personnel officer in this effort, particularly when making community and service organization contacts.)

(*e*) As deemed appropriate, make arrangements with your area information representative to get public service time and to develop other appropriate means of communicating these efforts to improve services to veterans (staffing needs could be woven into such releases).

5. Civil Service Commission has committed their full cooperation and priority service in meeting these needs. Generally, Commission expects to respond to requests for certification within 24 hours of receipt of properly completed SF 39. Name requests may require additional time. If adequate number of Vietnam era

veterans not available on registers, Commission will make arrangements for prompt testing of FSEE candidates, local scoring of test papers, and immediate certification of eligibles.

6. Comprehensive training of these employees is of vital importance. Appropriate training at each field station should be given to both new and on-duty employees selected for these positions as soon as possible following their selection. In addition, a comprehensive centralized training program to be conducted at four sites during the month of July is being planned. You will be kept informed as these plans progress.

7. Prior to local implementation, in accordance with MP-5, part I, chapter 711, stations with exclusively recognized labor organizations should confer with these organizations concerning impact this program may have on employees they represent.

8. Keep your field Director informed of significant progress in staffing these positions and about any management problems you may encounter. Technical assistance or resolution of any delays in service by Civil Service Commission may be obtained by calling the Office of Personnel on 202-389-3725.

9. RESCISSION: This Circular is rescinded July 1, 1975.

PREPARED STATEMENT OF AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES

A new research project at the University of Wisconsin indicates that substantial decreases in college tuition can result in dramatic increases in enrollment.

The study, made by Dr. Jacob Stampen, Director of Special Projects of the University of Wisconsin system, was released by Dr. Stampen and the American Association of State Colleges and Universities (AASCU) in connection with Congressional hearings on higher education being conducted by Rep. James G. O'Hara (D-Mich.).

The Wisconsin study came to the following conclusions:

Each $100 decrease in tuition resulted in an enrollment increase between 4.8 and 12.2 percent above the average increase for the Wisconsin system.

A substantial number of the additional students who enrolled said that they could not have attended college at all except for the combination of low tuition and geographic access.

Allan W. Ostar, Executive Director of AASCU, commented, "The Wisconsin study is important for several reasons. First, many states have been raising tuition at public colleges, without careful consideration of whether this will keep out qualified students, including part-time and older students.

"Second, national commissions, such as the Carnegie Commission and Committee for Economic Development, have recommended substantial increases in tuition, without considering the possible effect on educational opportunity.

"Third, the National Commission on the Financing of Postsecondary Education recently estimated that a $100 increase in tuition might result in a one to three percent loss in enrollment. The Wisconsin data, based on actual experimental evidence, indicates that the effect may be much greater.

"Finally, Congress is now considering whether to fund the federal cost-of-education program under the Higher Education Act, to provide support for colleges. I am informed that educators in Wisconsin and elsewhere are discussing the possibility of applying such aid to reducing or eliminating tuition at public colleges, at least for the first two years. The University of Wisconsin research indicates that if this were done many more people would be encouraged to continue their education."

The Wisconsin project involved reducing tuition and fees at two University centers, located at Rice Lake and Fond du Lac, from levels of $515 a year at Rice Lake and $476 a year at Fond du Lac, to $180 and $150 a year, respectively. Enrollment rose 23 percent at the first center and 47 percent at the other. At other Wisconsin centers where tuition was reduced, enrollment rose an average of seven percent. The experiment will continue for at least one more year.

PREPARED STATEMENT OF JACOB STAMPEN, UNIVERSITY OF WISCONSIN SYSTEM

Effective first semester 1973-74, tuitions and fees at the Rice Lake and Fond du Lac centers were lowered to match fees charged at vocational institutes located in the same cities. (See Table.) The purpose for this experiment was to determine the enrollment impact of charging the same fees at two-year university centers and vocational schools. There was no discernable enrollment impact at the vocational schools. Enrollment increases at the Rice Lake and Fond du Lac vocational schools were among the highest in the state vocational system. On the scene observers also report that enrollments at private institutions were unaffected as well. While low fee centers did better than average in most enrollment categories, the most pronounced increase was in the new student category. That is, transfer students did not account for a major portion of the increase.

There are, of course, broader implications to the low fee experiment. Among these, the Carnegie, CED and Newman studies made judgments about higher education financing policy without systematically assessing the enrollment impact of altering tuitions, with all the accompanying societal and institutional implications. The National Commission on Postsecondary Education did try to assess tuition impacts, but their estimate, which may be the core to the credibility of the analytical framework, may have been seriously understated. At least this appears to be the case as indicated by Wisconsin data.

The National Commission estimated that the enrollment impact of raising or lowering tuition by $100 would range between one and three percent, depending on a range of factors including tuitions charged at other institutions.

Wisconsin data indicates that lowering tuitions and fees could have an impact between 4.8 and 12.2 percent per $100 decrease.

There is another way to look at this. A student survey at the two low fee centers indicated that location and low fees were equally important in determining student enrollment. A closer look at the location variable in Wisconsin indicates that while location seems to be very important, the impact of reduced fees is probably more important. By clustering centers in terms of a rough indicator of population density, population of municipal location, it can be seen that the two low fee centers had enrollment gains between 6.2 and 11.2 percent per $100 fee decrease above the average for rural and urban clusters.

Other Wisconsin data also indicates that the National Commission impact estimate may be understated on the high side. Between 1968 and 1970 tuitions for non-resident undergraduates at the University of Wisconsin were in increased by $[illegible]00. The enrollment impact was a 26.5 percent reduction of non-resident undergraduates, or 4.4 percent per $100 increase in tuition.

Analysis of other experiment results is planned. Particularly important will be assessment of changes in the composition of student bodies at low fee centers relative to regular fee centers (i.e., adult students and students from low income families).

EXPERIMENT RESULTS

	Tuition and fee decrease 1973-74	Enrollment increase 1973-74 (percent)
Fond du Lac	$326	47.0
Rice Lake	335	23.1
Average for center system, less low fee centers		7.0

PERCENT ENROLLMENT INCREASE PER $100 DECREASE IN TUITION

Fond du Lac reduced tuition and fees by 3.26 hundred dollars and had an enrollment increase 40 percent above the average for regular fee centers.

Fond du Lac: 40.0 divided by 3.26 equals 12.2 percent enrollment increase per decrease in tuition and fees.

Rice Lake: 16.1 divided by 3.35 equals 4.8 percent enrollment increase per $100 decrease in tuition and fees.

PERCENT ENROLLMENT INCREASE PER $100 DECREASE IN TUITION FOR URBAN AND RURAL CENTERS

Fond du Lac: 36.4 divided by 3.26 equals 11.2 percent enrollment increase per $100 decrease in tuition and fees.

Rice Lake: 23.2 divided by 3.35 equals 6.9 percent enrollment increase per $100 decrease in tuition and fees.

THE UNIVERSITY OF WISCONSIN CENTER SYSTEM, TUITION AND FEES (2 SEMESTERS), 1972-73

	1972-73			1973-74		
	Tuition	Fees	Total	Tuition	Fees	Total
Center system	400	58-120		426	48-100	
Baraboo	400	58	458	426	66	492
Barron (Rice Lake)	400	115	515	80	100	180
Fond du Lac	400	76	476	80	70	150
Fox Valley	400	88	488	426	58	484
Manitowoc	400	88	488	426	70	496
Marathon	400	58	458	426	48	474
Marinette	400	88	488	426	62	488
Marshfield	400	58	458	426	58	484
Medford	400	68	468	426	70	496
Richland	400	120	520	426	96	525
Rock	400	58	458	426	58	484
Sheboygan	400	58	458	426	48	474
Washington	400	58	458	426	58	484
Waukesha	400	58	458	426	50	476

Mr. O'Hara. The committee will met tomorrow at 10 o'clock in this room, to continue our explorations of the assistance programs.

Thank you very much.

[Whereupon, at 11:50 a.m. the submmittee recessed, to reconvene at 10 a.m. of the following day, Tuesday, June 18, 1974.]

STUDENT FINANCIAL ASSISTANCE
(Institutional Aid)

TUESDAY, JUNE 18, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Dellenback, Biaggi, and Benitez.

Staff members present: Jim Harrison, director; Elnora Teets, clerk; and Dr. Robert Andringa, minority staff director.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

This morning we are continuing to take testimony on institutional aid, with particular reference to the relevance of such aid to student financial assistance and to the problem of student access to postsecondary education.

Our first witness this morning will be introduced by the ranking majority member of this subcommittee and I might add a very constructive member of the subcommittee, who has been of great assistance to us in our consideration of the subject before the subcommittee, the gentleman from New York, Mr. Biaggi.

Mr. Biaggi.

Mr. Biaggi. Thank you, Mr. Chairman.

Our first witness is Father James C. Finlay, who is president of the Fordham University located in the Bronx in New York City. Before becoming president in 1972, Father Finlay was chairman of the Political Science Department and dean of the Graduate School at Fordham.

Father Finlay was born in Roscommon County, Ireland, in 1922, migrated to America and graduated from Regis High School in New York City, and Loyola University in Chicago. He received his M.A. in political science from Georgetown University and his Ph. D. from Duke University. He has been an ordained priest since 1942.

Father Finlay is a member of the American Political Science Association, and the Executive Committee of the Association of Colleges and Universities of the State of New York, as well as Commissioner Nyquist's Advisory Council on Higher Education and the Regents Regional Coordinating Council for Postsecondary Education in New York City.

As you can see, Father Finlay is well qualified to speak on the questions before this subcommittee, but over and above all of these qualifications, he has one that transcends them all: he is my constituent.

Father Finlay is accompanied by Joseph Kane, representing the Association of Jesuit Colleges and Universities. We welcome you and are very glad to see you here.

STATEMENT OF REV. JAMES FINLAY, PRESIDENT, FORDHAM UNIVERSITY; ACCOMPANIED BY JOSEPH KANS, REPRESENTATIVE, THE ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES

Father Finlay. Thank you very much, Mr. Chairman and Mr. Congressman.

Mr. Chairman and members of the Special Subcommittee on Education: I am, as you have been told, Father James Finlay, president of Fordham University, representing the Association of Jesuit Colleges and Universities. These number 28 colleges and universities in 18 States and the District of Columbia, and these colleges and universities serve approximately 150,000 students. Mr. Joseph Kane, who accompanies me, is the associate director of the Association of Jesuit Colleges and Universities.

By way of preliminaries, I would like to say this: I come from the State of New York, which has an extraordinary record, I would consider a model record of support for higher education, both public and private, and some of the comments that I may make may seem to be critical of programs within States. I don't want these criticisms or comments to be directed at my home State, which I think has been doing a very, very fine job in supporting both public and private education.

Let me first thank you for this opportunity to testify before you on the pressing issue of cost-of-education programs for colleges and universities. You are to be commended for your resolute efforts to come to grips with the forms and funds of public aid to postsecondary institutions and students. Throughout 1973 and to this date of 1974 this committee has vigorously pursued a path of reviewing the characteristics of student aid programs and other components of Federal aid legislation on postsecondary education and of seeking to improve the achievements already made by Congress over the past two and one-half decades.

In 1972 Congress passed legislation with certain objectives clearly in mind: greater access and choice for students seeking postsecondary educational opportunities, especially low-income students; assistance toward resolving financial distress of colleges and universities; better planning and coordination in all of postsecondary education; the collection and analysis of financial information adequate and appropriate for determining national policies in terms of shared financial responsibilities and the Federal role.

Despite good intentions and good programs, the conditions confronting higher education today can be well expressed in this succinct statement by the Policy Analysis Service of the American Council of Education:

> Steadily increasing costs of postsecondary education have severely reduced the enrollment options for most potential students and they have inhibited con-

tinuing education for many adults. Low-income students are finding their choices are narrowed to the low-cost community colleges, and middle-class students are finding that private and high-cost public education is being priced out of the market for them.

From the standpoint of institutions the private colleges are unable to compete with the tuition rates of public institutions, and all institutions are finding that enrollment pressures are decreasing with the decline in the size of the 18–25 year-old category, adding to the financial strain on the budgets of the institutions.

Student aid policies are currently in disarray because of the funding issues between the Congress and the President, and consequently students who need financial assistance cannot find adequate sources of help. Parents are finding the burden of financial outlays for college attendance to be excessive during the peak years of college age of their dependents.

This sums up the situation: (1) choice is being reduced for low-income students; higher-priced institutions, both public and private, are becoming out of the range of middle-income families; (2) private institutions cannot compete with public institutions—the tuition differential is threatening the survival of private colleges; (3) appropriations for, and administration of, student aid programs are reducing their effectiveness in meeting congressional objectives.

Gentlemen, it is with this statement in mind that I wish to address myself to the issue of the cost-of-education programs and to inquire how a cost-of-education program could assist colleges and universities. The present cost-of-education program is untested and seemingly untestable. Without funding we probably can never know what its impact would be or might have been. While we can assume that, had appropriations been forthcoming, it would have provided some relief to institutions, there are elements in the present formulas of the program which cast doubt on equitable treatment for private institutions.

The COE formula (relating to undergraduate institutions) is rooted in COE aid following federally aided students. Without bringing that concept into debate—as happened during the evolution of the Higher Education Amendments of 1972—indeed, assuming its functionability, we must yet question the equitability of the present formulas and the way in which these formulas relate to and rely upon the present student aid programs.

There are indications that the present student aid programs, at least as they are now actualized, are inequitable toward students attending private institutions, and as a consequence would engender inequities in distribution of aid through a COE program based on them. In order to overcome these disadvantages, I would like to suggest for your consideration a means to diminish, if not remove entirely, the inequitable effects of these programs. The root of these inequities toward private institutions and their students is the tuition differential between public and private institutions. Documented evidence points to the differential reaching a 5 to 1 ratio. The latest Carnegie Commission report, entitled "Tuition," illustrates this situation very well and its data should warrant your closest attention.

Therefore, in order to achieve an equitable cost-of-education program based on federally aided students, inequities must be removed from the student aid programs, which in turn require a solution to the tuition differtntial. In order to accomplish this task, I would recommend to your attention the feasibility of these interrelated programs.

1. Establishing a Federal-State tuition assistance program aimed at reducing the 5 to 1 differential toward 2 to 1, in line with the Carnegie Commission recommendations;

2. Basing the basic educational opportunity grant program (BEOG) solely on tuition (taking into account, of course, the tuition assistance awards to private institutions);

3. Focusing the Supplemental Educational Opportunity Grant program (SEOG) on tuition-based costs for low-income students not met under the suggested BEOG program;

4. Directing the work-study program toward, and developing a Federal grant program for, nontuition expenses;

5. Targeting loan programs primarily to upper-middle and high-income students;

6. Providing a cost-of-education grant to undergraduate institutions on the basis of a percentage of total Federal dollars received for BEOG and SEOG recipients, and to graduate institutions on a capitation count as in the current law.

With the remaining few minutes allotted me, I would like to enlarge on certain points in the suggested recommendations. While including a longer narrative for the record, I shall limit myself to highlighting my reasons for what you might consider an ambitious, but extremely necessary program for the survival of much of the private sector in higher education.

In the accompanying narrative various arguments are proposed in support of suggested changes for establishing an equitable cost-of-education program. It is clear, however, that whether or not there is a COE program, the present programs are inequitable and require strong remedies. What we now see is a COE program rooted in weak student aid programs, taking on all the inimical characteristics of the veterans' cost-of-instruction program (VCOI). This latter program is based on personal subsidies to veterans in current veterans' educational benefit legislation. In the first year of funding for VCOI 95 percent of the moneys went to public institutions which enrolled 80 percent of the veterans.

There is no way to avoid the conclusion that a veteran's benefit program precluding choice of institutions is the major cause of the inequities in the distribution of VCOI funds. A similar inequity would result under the present formulas of the COE program were it funded. The formulas of the student aid programs must be changed if Congress is interested in providing equitable treatment to private institutions and students seeking to attend them.

Secondly, while the present range of student aid programs cover every area of need, there is serious confusion evident about the kinds of needs to be met, much as in the present veterans' educational benefit programs. Educational and instructional costs are linked with living costs and other personal expenses; BEOG grants are targeted to income maintenance for those attending low-price institutions; loans are forced upon low-income students when grants are more appropriate.

If Congress wishes to provide grants to students for education, it should do so; if it wishes to provide support to families or students for living costs related to educational activities, it should also do so. But it should not confuse education with welfare and income maintenance. This leads to a radical change in the nature of education and educational financing; it could drain all education resources for welfare purposes, and even with maximum funding would be inadequate to meet the welfare need for income maintenance.

The present dislocation in the range of student aid programs fostered by a BEOG concept based on cost-of-attendance should be remedied by separate forms of aid for each type of need. Otherwise, the very meaning of aid for education is threatened.

Finally, the recommendation for a Federal-State matching incentive tuition-assistance program is based upon the simple need to bring private higher education once again into competition with public institutions. Many words have been written testifying to the need, the hope and the encouragement of State aid for private institutions and their students. So much so that everybody's business has become nobody's business. We are convinced that the Federal Government alone can provide the stimulation necessary for States to assist private institutions.

The three basic ideas presented here: the need for a Federal incentive policy to provide tuition assistance to private colleges and universities, the need for equitable student aid programs based on a separation of educational costs from living expenses, and the establishment of a sound COE program upon them should be, we believe, given your serious consideration in reviewing changes for future higher education legislation. Along with the narrative, special comments are appended on: "Federal and State Policy Towards Private, Nonprofit Colleges and Universities; Tuition Assistance for Private Institutions: Student Aid Program."

Thank you, gentlemen.

Mr. O'HARA. Thank you very much, Reverend.

Mr. Biaggi, would you like to direct some questions?

Mr. BIAGGI. Thank you, Mr. Chairman.

First, on page 3, you make reference to the Carnegie Commission report entitled "Tuition." Will you submit a copy of that for the record for this committee?

Father FINLAY. Yes.

Mr. BIAGGI. I think your statement makes it quite clear, but as a matter of colloquy and for the record, isn't what you are saying, in fact, that under the present system the poor are really, in fact, denied a choice of institutions?

Father FINLAY. Yes, this is what I am saying, that the level of funding and the mechanics of funding of assistance to low-income students is such that their choice is almost exclusively limited to the low-cost public institutions, and if you will look at some of the statistics presented in the Carnegie tuition report, you will notice that starting in 1967 there was an increase in college enrollment in the two lowest quintiles of popalation.

That began increasing slightly up until 1972. Then all of a sudden it has dropped off. So it is not only access to low-cost institutions, but access to higher education that is being limited as to students in the two lowest quintiles of the population. It is a distinct falling off within the last year. I think this should be a matter of concern to both the public and the private sector of higher education and to this committee.

Mr. BIAGGI. You said the mechanics?

Father FINLAY. Yes.

Mr. BIAGGI. Will you explain what you mean by that?

Father FINLAY. When the BEOG program was launched, it took so long to get the standards established and get the forms to the students and their families that many of those who were eligible for BEOG grants did not even apply. I think there is a considerable sum of money left in the BEOG program, which is being, I hope, hopefully rolled over into the next budget where it can be used.

I have talked to low-income students, and they are thoroughly confused. Frequently, neither they nor their parents are capable of facing the prospect of six different application forms to get Federal and State grants, and in their schools they are not getting adequate counseling so as to handle the mechanics of the grants.

So this problem is also hindering students from coming to college. I know, again, from my conversations with low-income students, there is a high level of dropouts among them because, and I am talking now in the private sector, where they can start off with grants both from public and from our own internally generated student financial aid. But at a point they realize this is not enough for their living expenses. They are terrified of taking out loans. They are very reluctant to take out loans, so they will drop out of college, or they may, if they are fortunate or intelligent enough, they may transfer into institutions which charge no tuition, but this just emphasizes the limitation on their choice. They are very, very reluctant to build up a burden of loans as they go through college, so I would say, both from the funding and mechanics of fundings, it poses real problems and genuine problems for low-income students.

Mr. BIAGGI. On page 2 in the summation, there are three items. "Item No. 3: Appropriations for, and administration of, student aid programs are reducing their effectiveness in meeting congressional objectives."

Will you explain that?

Father FINLAY. Well, as you are aware, the level of appropriations for the 1972 amendments has never met the expectations of certainly the student population. Now, I have called your attention to some of the problems in the administration of these programs, and there are large unmet needs out there of students who need the funds, and in our data they are submitting in the third appendix, page 2, we have listed there for you what has been approved by the panel and what has been appropriated.

Speaking for my own institution, we have found that there are many more students applying for college work-study than we possibly can accommodate. Similarly, for direct student loans, there are many more applications for direct student loans than we can accommodate.

So that the level of appropriations simply does not come up to the level of need. Now, in the administration of the program, the biggest difficulty has been the multiplication of programs and the confusion that this generates. You may be aware that the State of New York is making an attempt to address itself to this problem of administration. In the latest education law passed, the tuition assistance program, there is a second part of that which sets up a new corporation which will attempt to coordinate all tuition assistance programs for students in the State of New York. They hope ultimately, if the Federal Government is willing, to handle within the State of New York the administration of the Federal programs, so that a student in the State of New York will have a single office to go to or a single form to fill out, and it will be a single-stop application for assistance.

Now, this will not be tooled up until 1975 or 1976. It will start studying the situation this year and hopes to be in operation, at least for the State programs, in 1975–76 and subsequently, if it can be worked out, to include also the Federal programs so that neither the student nor the parent would be confused by the plethora of programs and in spite of the plethora of programs the small amount of money that comes through.

Mr. BIAGGI. On page 3, second paragraph, there are indications that the present aid programs at least as now actualized are inequitable to students attending private institutions. Will you explain the inequity?

Father FINLAY. Page 3. There, in appendix 3 on the program on BEOG, we present the information. The BEOG relates parental contribution to the total student need, based on cost of attendance and toward award of grants up to $1,400 in different situations. The award is one-half of the total need up to a maximum of $1,400. Cost of attendance is quite different from tuition.

The nontuition items according to one estimate amount to a national average of between $1,850 and $1,950 for residential students at public and private colleges respectively. If a college has no tuition, a BEOG grantee at that institution could receive up to $925 for noneducational expenses. At the expected funding levels for the next academic year, however, the maximum receivable by the student attending a tuition-free institution would be $750.

The BEOG payment schedule published by the Office of Education in May 1974 states with a few specific exceptions all students will have a minimum cost of attendance of $1,500, $1,100 living expenses and $400. The students attending tuition-free institutions with no on-campus living facilities are still provided the $1,500 minimum allowance, so if you have a BEOG grant and you have no tuition, or rather, some tuition to pay, the BEOG grant is less serviceable to you in a tuition-paying institution than it is in a non-tuition-paying institution.

In New York City where we have a vast non-tuition-paying City University, and many private institutions, the student who goes to the City University with the BEOG grant has the BEOG grant for his or her personal expenses.

Now, we know, and this again is documented in the Carnegie report, that those expenses not directly connected with tuition in both the public and private sector are pretty much the same. So that with that same amount of money, the person who receives a BEOG grant and has no tuition to pay is better able to meet those expenses than the student going to tuition-paying schools with a BEOG grant, but has to pay tuition.

A very clear example that I see every day on the north side of West 60th Street where we have our Lincoln Center Campus, which will be charging next year a tuition of $2,400, on the south side of that same street is John Jay College of the City University with 10,000 students and no tuition.

Now, a student walking west on 60th Street has a choice. Suppose he gets a BEOG grant, if he goes on the south side of the street, he can use the money from the BEOG grant to cover living expenses, which are pretty much the same for him as the student who chooses to take that BEOG grant and to go to Fordham just across the street, and there most of the BEOG grants will be eaten up in meeting tuition costs and leaving him with essentially the same living costs, the high living costs of New York City.

Mr. BIAGGI. Your suggestion to meet this is what?

Father FINLAY. That we focus BEOG directly on tuition costs and that we make special provision for the noneducational costs of all students, particularly the low-income students, direct or target BEOG on tuition costs and then target the work-study and other assistance programs which can be devised to maintain the income of particularly the low-income students so that they can go to college.

The access to college is not just a matter of tuition or no tuition. Even in the city of New York, where there is free tuition, there are thousands of students who are not going to college. Now, tuition is not the block. The block is the income maintenance, the fact that they would have to defer income, but their families need assistance.

So far as BEOG is concerned, I say target that on tuition costs. Target work-study, increase or expand the work-study program considerably and direct the work-study program, as we mention in the narrative, direct that toward the maintenance of income for students who need such income, and certainly there are plenty of students who need, both in the public and private sectors, that need that income.

Mr. BIAGGI. We are obviously talking about additional sums of money?

Father FINLAY. We are obviously talking about additional sums of money.

Mr. BIAGGI. Absent the adoption of your suggestion in the present in pure form or modified, what do you see as the future of the private institution?

Father FINLAY. I would say the future of the private institution is very, very dim. I spoke on another occasion here in Washington about a month ago, and from what I have learned in New York, I predicted that within a short while, perhaps within a decade, we will see the disappearance of about 30 percent of the private institutions.

Now, you earlier raised the question that this program I am suggesting is going to cost additional money. Well, I think that depends on how you look at that. If the private institutions collapse, there is going to be a much heavier burden on the public sector and a much greater demand on the taxpayers to provide education in public institutions.

As long as you maintain a vigorous sector of private institutions, you are getting other moneys into the educational picture from the individuals' families, from gifts and grants, from various philanthropies, so there is a multiplier effect operating as long as private institutions are functioning. If they no longer function, then the full burden of the cost of education is going to fall on the taxpayers.

In the State of New York, I think at the moment private institutions are educating somewhat less than half of the undergraduates and a much larger percentage of the students in professional schools and graduate schools. We pointed out to Mayor Beame in New York that even though the City University is a much larger institution than the total of the private institutions, in number than the total of the private institutions, private institutions still significantly produce more bachelor degrees, more master degrees, and more Ph. D.'s than the City University.

So that we are making a very, very significant contribution to the economy of that city. We represent a payroll of almost slightly less than $1 billion, and we are producing more degrees, and if that is what you are talking about, higher education, at least that is one measure of higher education productivity, that is, the degrees, and for the dollars invested in the private sector the public is getting a much bigger return in people coming forward with degrees.

Mr. BIAGGI. Let me ask you one question in connection with these programs, in private as well as public institutions, the administration of them; and insofar as the participation of the student is concerned, do they, in fact, attend the classes once they have registered and have received their funds?

Father FINLAY. Well, I can only speak for my own institution, and the answer to that is yes.

If you are addressing yourself, as I think you are, to the loan incomes particularly, those that are receiving most of the funds, we have a program which maintains fairly close academic and personal supervision of those students and counseling, and the record of attendance and the record of success for that group of students is just as good as any other comparable group of students.

We have found in our own experience, by providing counseling that is effective and sympathetic, and other support services, which are the really difficult costs of education, that we have been able to guarantee, at least we have had the experience of a very high percentage of those students who enter Fordham graduating, and those who are attending Fordham actually attend their classes and pursue their programs with at least as much diligence as any other student. We have been pleased.

Mr. BIAGGI. That is a comment on your own university, but you are so thoroughly steeped in educational activities generally—well, let me pose the question in a different way.

Would you suggest this committee investigate other institutions to determine whether or not the students are, in fact, attending the classes?

Father FINLAY. I think, from what I have learned in my discussions with other educators, there is a genuine need to see whether, in fact, the students are attending. I mentioned in my paper the need to separate out direct educational costs and income maintenance costs.

I have heard a number of comments from people at other institutions that students are clever enough to see that programs which are designed for income maintenance can be used precisely for the income maintenance with a minimum exposure to classes and education. This is one of the unexplored and, I think, embarrassing situations that exist in a number of institutions.

Mr. BIAGGI. That is all, Mr. Chairman.

Mr. O'HARA. Thank you very much, Mr. Biaggi.

Father Finlay, I think you made a good point when you say that it is unfortunate that higher education programs of student assistance have to undertake income maintenance. It seems to me that that income maintenance ought to be the function of other programs and it ought to be done much better than it is. We had a witness here from the association of students at San Francisco State, who gave a number of examples of students, independent students, who were unable to attend San Francisco State because they could not support themselves and sometimes their minor children or whatever with the funds they received.

The SSI program, when you talk about disabled students, as I understand the SSI program, and it may be that this only relates to disabled students who are members of their parents household or whatever, but if they quit going to school, they become eligible for SSI payments. On the other hand, if they go to school, they are not eligible for SSI payments.

I have asked the staff to call in a panel of people who deal with income maintenance problems. I think the committee ought to get into the question of whether or not it is not more appropriate for income maintenance programs to do the income maintenance part of the job for students, especially for independent students, and I think also for students who are members of families that are of very low income, than it is for higher education programs to try to do that job.

I notice you tried to make that distinction in your testimony.

Father FINLAY. Yes.

Mr. O'HARA. And I think that is a distinction worth our exploring and pursuing.

I also like very much the logical framework into which you put things, with the six points that you get at on the bottom of page 3 and the top of page 4, although I want you to know I very strongly disagree with the first one. You are going up in an ascending scale most of the time until you got down to No. 6, but, in any event, because I really think it might help private colleges, but it would not help any students in this situation.

Well, you know, the tuitions at public institutions are going up rather alarmingly, too. It has now gotten to the point where they are pretty darn high, at least in most States. To say to a student who is barely managing to attend the public institution, "We are going to help you out by closing the gap and increasing the tuition you now pay," I don't think that is a very helpful argument.

Father FINLAY. Well, I have not argued for a year for increasing the tuition. There are other ways of closing the gap than by increasing the tuition in the public institutions. I have not argued that position at all. I am aware of the growing costs in public institutions.

The figures are spread out before us in the Carnegie report on tuitions and I tend to favor the attitude of the Carnegie commission over the other reports that have been made. The Carnegie commission urged that tuition and fees should ultimately achieve perhaps one-third of the full educational costs in the public sector.

They also pointed out in many institutions they already have reached that level. The University of Michigan would be one, where it has already gone beyond that level. There are other public institutions where they are paying something beyond that.

The cost of adjustment, if you were to accept the Carnegie report, as they point out, would be perhaps an increase of about 1 percent a year over the next few years. Most large public institutions, they were already pretty much in line with what the Carnegie commission thought was a goal.

I am not arguing the raising of public—well, I don't think anywhere in the paper I argued raising public tuition. What I argue is closing the gap. The gap can be closed several ways.

In the supplementary data we discuss several ways in which this could be done, but you could conceivably accept the public tuition at whatever rate it is, even lower, if you want, and take the average cost of educating a student in the public sector and the average cost of tuition in the States and subtract the one from the other, and then perhaps fund half of that through Federal and State matching funds.

Now, we are not prescribing or suggesting a single formula and nowhere do we suggest that the answer is raising the tuition in the public sector.

Mr. O'HARA. Thank you very much, Father. I am very glad you clarified that, because I am very anti-tuition increases.

I would like to take some more time, but we have two more witnesses. Mr. Kane is a frequent participant in our discussions in any event. I am sure he will reflect your views in those discussions.

Thank you very much for coming before the committee and for your very useful testimony.

Father FINLAY. Thank you very much.

[Father Finlay's prepared statement follows:]

PREPARED STATEMENT OF REV. JAMES C. FINLAY, PRESIDENT, FORDHAM UNIVERSITY

The Association of Jesuit Colleges and Universities has followed carefully as have other associations, the development of postsecondary education legislation from the beginnings of the Education Amendments of 1972, through the activities of the National Commission on the Financing of Postsecondary Education, to the present hearings concerned with the application of present law and the administration of its programs. We are convinced that both policy and programs need updating in view of continuing financial distress and of apparent inequities resulting from unforeseen factors in the law.

Our major concern is the differences between public and private higher education. Both of these institutional sectors are necessary to the very character of our American culture, intrinsic components of our democratic form to create balances which mutually serve to measure and improve the functions of its correlative parts. In higher education there are two very interrelated and interacting elements which, despite some similarities, remain different in their modes of operation. It is not to be taken lightly that the American system affirms the necessity of public education under state controls while at the same time stimulating a similar public service through private non-profit and profit-making establishments. It is not merely the suvival of the nature of higher education which is at stake; it is the meaning of our kind of democratic society. Private higher education offers an alternative necessary to sustain a democratic pluralism. This, simply speaking, is the root justification for maintaining private colleges and universities.

All of higher education has changed in the past 30 years. Some of the changes have been helpful, some harmful to private higher education. Without describing all of these—most of which you are aware—let me point to certain changes to which, we believe, more attention should be given. These are (1) the general area of federal and state relationships to higher education, and (2) the matter of equity both in respect to the public which supports higher education and to those students and institutions who benefit from such public support.

FEDERAL AND STATE AID POLICIES FOR PRIVATE COLLEGES AND STUDENTS ATTENDING THEM

We are convinced that Congress was on the right track in passing legislation in 1972 directed at better planning and coordination of states' resources for postsecondary education. Too many private colleges have suffered from the indiscriminate expansion of some areas of postsecondary education. Many have closed their doors; more undoubtedly will do so when the effects of overexpansion lead to targeting funds to sustain public institutions—thereby reducing the capacity of state legislatures to assist private institutions and the students attending them. It is unfortunate that educational researchers have failed to examine the impact of the expansion of public institutions upon the survival of private colleges, as well as upon the taxpayer.

Private higher education cannot wait for the states to change their attitudes towards assisting private colleges. There is apparently much advertisement about state aid for private higher education, and it is to be applauded when the shoe fits. Pennsylvania, New York, Illinois, New Jersey and Michigan are among the leaders here. The list of state aid programs for private institutions published by the Education Commission of the States testifies to increasing efforts. But, about one-third of the states have not given any assistance to private institutions or students attending them and the total sums awarded to all private institutions by all states nationally are less than four percent of total state aid to higher education, excluding capital outlays. (See Appendix 1, Table attached.)

In the past, with a few significant exceptions, the federal government has treated public and private higher education with an even hand. The Higher Education Facilities Act of 1963, and many of the student aid programs from NDEA on, do not discriminate between institutions or the students attending them. On the other hand, however, the cancellation of tuition grants for veterans beginning with the Korean War G.I. bill, the introduction of certain student aid program formulas and superimposed regulations, the extension of benefits to include part-time and proprietary school students without the commensurate expansion of funds, the introduction of a veterans' cost-of-instruction program have all served to increase the financial difficulties of private higher education in relation to public colleges and universities.

Let me turn to the question: what can be done to redress these difficulties and perhaps, as a result, change the direction in which private higher education is headed?

Congress itself indicated that it was hardly satisfied with the general character of the higher education legislation it passed in 1972. Congress mandated establishment of a National Commission to investigate the causes of financial distress, evaluate the success of current programs, and propose policy solutions to the financial difficulties facing all of higher education. The enormity of that mandate is now becoming evident: the complexity of the issues of financial distress is not matched by the simplicity of such a mandate. At best, the wisdom of Congress has generated an unprecedented universe of research in almost every phase of postsecondary education. It is hoped that Congress will once again give serious consideration both to national policy and federal obligations and to the most appropriate means to accomplish its objectives.

It is our contention that the federal government has a responsibility towards the private sector, including its own prerogatives as well as being able to stimulate state action to aid private institutions. The suggestions below are directed towards both of these responsibilities.

Our testimony is directed to the possible inclusion of a tuition assistance program for private non-profit higher education, and to removing inequities in student aid programs. Our aim is to bring to your attention—and, indeed, into public view—our concern for the threat to the existence of private higher education generated by the character of programs and *ad hoc* policy rationales wittingly or unwittingly detrimental to the private sector. Focusing upon the tuition differential, upon current student aid programs and upon funding issues is, we believe, an effective concern. The solutions we suggest are exploratory, but, although other associations and interest groups are also intensively investigating the tuition problem, we lend firm support to the policy and program directions suggested herein.

OBJECTIVES AND POLICIES FOR FEDERAL AID TO HIGHER EDUCATION

The Association of Jesuit Colleges and Universities proposes the following objectives and policies to be included among others in guiding future legislation for higher education. Relying upon your interest in all of higher education and in equitable benefits to institutions and students, we believe that greater stress should be placed upon these objectives, along with those of equal educational opportunity and institutional diversity and excellence. Indeed, we believe these objectives would serve well to implement all others.

Objectives

1. National goals for higher education should include the sustenance of private higher education.
2. National goals should take into account the concept of "shared financial responsibility" in meeting the costs of higher education, relying upon equitable tax burdens and distribution of benefits.

To achieve these objectives, greater efforts should be devoted to planning policies which would effect them. We suggest the following policies as guides for federal program planning.

Policies

1. The federal government should exert maximum leverage on all non-federal sources of financial support to generate maximum contributions for all of higher education:

(*a*) promoting planning and cooperation between states and regions, public and private sector interrelationships and inner-sector cooperative arrangements,

(*b*) improving utilization of private facilities and sharing of both public and private facilities for specific purposes,

(*c*) assisting states in lowering the per student costs to the taxpayer,

(*d*) promoting indirect aid to institutions without direct expenditure of revenue.

2. The federal government should promote programs which correlate institutional diversity and student choice in the same financial interrelationship.

(*a*) the range of instruction-related student aid programs should be proportionate to the institutional cost-of-instruction.

(*b*) cost-of-education aid programs should be associated with the cost-of-instruction with special emphasis upon costs dependent on educating low-income students.

(*c*) the federal government should stimulate the establishment of tuition offset devices to insure the competitiveness and quality of private higher education.

3. Equitable student aid programs should be developed treating all income levels fairly:

(*a*) access programs should not adversely affect entrance to private colleges and universities,

(*b*) aid programs should be considered which do not add a proportionately higher burden at graduation to one class over another,

(*c*) aid programs should provide vertical equity—proportionate types of grant, work-study and loan programs should be developed for the various income groups,

(*d*) aid directed at institutional costs of instruction should not be confused with non-instructional aid to students; they should be separate programs.

The real thrust of these policies is evident. It is equity to the essential educational components of our national heritage: strong public and private institutions; equity in federal and state policy toward these institutions; the inclusion of institutional needs in providing student aid; fair treatment of all income levels in the provision of student aid for selection of an institution; harmonization of federal and state tax levies and subsidies to maximize benefits to the taxpayer and to reducing inequitable burdens, and consideration of the possibility of federal incentives to stimulate action on achieving these policies.

PROGRAM AID FOR HIGHER EDUCATION

To this end, we suggest certain types of programs which would help in their achievement. We are aware of the differences—sometimes animosities—between public and private sectors of higher education. It is not our goal to increase these, or aggravate them. But we are firmly convinced that only through incentives from the federal government can public and private cooperation in the states be stimulated to produce in most cases effective aid to maintain private higher education. The idea promoted by some a few years ago that the states are responsible for institutions and the federal government for students has to a great extent been responsible for the financial condition of private higher education. The effect of this idea has been to sustain state support of public institutions and to generate additional federal support of students to attend low or no tuition institutions. The federal government alone, we believe, can and should change this direction.

To aid private higher education, we suggest that some consideration and investigation be given to the following propositions on the tuition differential between public and private institutions and undeveloped areas of student financial aid.

I. Tuition Differential

1. The federal government should support a tuition assistance policy through a federal-state matching incentive program.

II. Student Financial Aid—Consideration should be given to:

1. Establishing separate grant programs for

(a) tuition costs, and

(b) non-tuition, education-related costs.

2. Aligning non-tuition, education related grants with work-study and other aid programs.

3. Investigating the possible inequities to different income levels from student aid programs both at time of entering and at time of departure (dropping out or graduation).

In more detail, we would propose:

I. Tuition Assistance Program

1. Federal-State Incentive Matching Program on a 50/50 basis.

2. The grant can be based on:

(*a*) a percentage of the average state per student expenditure at public institutions.

(*b*) the size of the tuition differential, or a percentage of it.

(*c*) a percentage of the actual average tuition at private institutions of each state.

3. Individual state differences should be maintained. Average public tuitions, in each state and state average private tuitions could serve as the comparative base for formulas.

4. The objective of this incentive grant program is to assure the competitiveness and quality of the private higher education sector.

II. Student Aid Programs

1. Tuition-Based Grants

(*a*) based on tuition alone the maximum grant would equal one-half tuition charged at either public or private colleagues and universities. The size of the private institutions' tuition would include subtraction of the tuition assistance grant.

(*b*) students from families of under $5,000 taxable income would automatically receive one-half tuition grant at the institution of their choice.

(*c*) students from families over $5,000 taxable income would receive a grant pro-rated on the basis of expected parental contribution, with a minimum grant of $50.00. The PCS schedule will not be used administratively to reduce expenditures of insufficient funding; a reduction scale will be applied, based on funding levels.

2. Non-Tuition, Education Related Grants:

(*a*) Federal Grant Program. A federal program should be developed to subsidize non-tuition, education-related costs to the student: room and board, transportation and personal expenses.

(*b*) a national average of such costs can be used as a base, or state or regional averages can be used. National averages showed negligible differences in these expenses between public and private, residential and commuting students.)

(*c*) maximum award would equal one-half of the national average non-tuition, education related expenses;

(*d*) targeting would follow the tuition grant income level formulas: full one-half grant to students from families under $5,000 income; pro-rated but with a minimum of $50 to all eligible students.

3. Work-Study Program:

(*a*) maximum award: $1,000/academic year.

(*b*) should include off-campus work experiences in all types of non-profit organizations.

(*c*) purpose is to provide aid largely for non-tuition, education related costs (currently two-thirds of the WS students receiving other aid are applying it to non-tuition costs).

4. Education Security Fund:

(*a*) Fund postsecondary expenses for all students needing loan assistance on an assured basis with repayment contingent upon future earnings.

(*b*) Provide a source for parents to invest funds for meeting the heavy expense of college attendance for their dependents.

III. Cost-of-Education

Assuming the actualization of a tuition assistance program and the suggested student aid revisions:

1. Undergraduate institutions' awards should be based on a percentage of total federal funds provided for BEOG and SEOG grants at an institution.

2. graduate institutions' grants should be based on capitation as in the present law.

APPENDIX 1

FEDERAL AND STATE POLICY TOWARD PRIVATE, NON-PROFIT COLLEGES AND UNIVERSITIES

Viewing the issue from the perspective of the social vs. individual benefit arguments, it is ascertainable that state policies have in the main been in favor of a limited social benefit theory: for public institutions and their students only. It is inaccurate, moreover, to assume, as do some national policy-proposing groups, that in the American tradition, states support only public institutions: the fact of no or low tuition provides enormous benefits to taxpayers, rich and poor alike. States support *public higher education*, institutions and students. In fact, if we are to believe the Hansen and Weisbrod studies, "state subsidy of higher education was three to five times greater than the anticipated increase in taxes to be paid by college students." [1]

State policy, in general has been negative towards private institutions and, though to a slightly smaller degree, to students attending those institutions.[2] A great effort is being made to demonstrate a new enlightened attitude by states towards assisting private colleges and universities. While this interest is indeed real in some instances, the total result is hardly sufficient to be called a trickle. Appropriations to aid private higher education by states is about four percent of total state aid (excluding Capital outlays) to higher education.[3] About one-half of this—$155 million—is concentrated by two states.

Federal policy, on the other hand, has been neutral towards public and private aid: it has applied its aid programs to both with a sense of equity. Only in recent decades have there been indications of shifting emphasis in federal policy. The Korean War GI bill, abolishing the tuition grant-in-aid to veterans, was perhaps the first major step away from equitable treatment not only of institutions, but of a class of citizens. As has been well substantiated, the World War II GI bill provided a tuition grant which, more than the size of any personal subsidy, permitted the veteran a choice of institutions.[4]

A recent editorial in *College and University Business* states,

> ". . . a major report on veterans' education has found a definite relationship between the utilization of student aid and the existence of low tuition. The utilization of the G.I. Bill—which, at $220 a month, is the most generous form of student aid available—by Vietnam-era veterans is high in those states where low-tuition public colleges are available, and correspondingly low in states where tuition is high."

Can there be better evidence of the exclusion of the Vietnam-era veteran from selecting a school of his or her choice? Is there better evidence of federal policy implementing and reinforcing the policy of low-tuition state institutions to the discrimination of private colleges, and the veterans wishing to attend them? Is there better evidence of the use of euphemisms to support inequity towards private colleges and their students by calling the present Veterans' benefit program when it has no reference point to costs at all? It is most evident, however, that when you do not give a veteran a tuition grant, he or she generally will attend a low tuition or tuition free institution, and spend the veterans' subsidy on non-educational expenses. It would be well to read the "major report on veterans' education" referred to by the author of the editorial: if anything, its objective was to point out inequities such as this among the various G.I. bills since 1945, not to approve them.

This is an instance where poor legislation seems to have encouraged worse legislation: while veterans no longer receive sufficient educational benefits to attend private institutions, an institutional aid formula (not a veterans' aid formula) was approved which awards grants largely to public institutions for veterans enrollments. One would have difficulty in finding a rationale for any appropriations for such a program, much less for its continuation as a national law.

I am enclosing for your information the award allocations for the first year of that program which indicate that while private institutions educate 20 percent of the veterans in colleges, they received five percent of the funds.[5] In one state, California, despite the fact that one fourth of the total federal appropriation was received by that state—six million dollars, only $57,000, or less than one percent of the state total, went to private instituions.

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[1] *Alternatives in State Government Financing of Higher Education*, Academy for Educational Development, February 1973, p. 3.

[2] From: *State Policy and Independent Higher Education*, a position paper presented to the Commission on Postsecondary Education, State of Montana, November 1973, Richard W. Jonsen.

[3] *Ibid.*, see accompanying charts at end of notes. Also see: *Higher Education in the States*, ECS, Vol. 4, No. 5, 1974.

[4] *Report of Educational Testing Service . . . on Educational Assistance Programs for Veterans*, House Committee Print No. 81, September 19, 1973.

[5] Veterans cost-of-instruction awards review. See attached chart and tables.

To our knowledge, there is no state grant program for veterans to attend private institutions. Whether or not this is true, we believe that the federal government should be the public voice for treating equitably those who serve in national defense. It has the responsibility for the national service functions of its citizens and should seek to provide equitable benefits to them. This should also be true for education.

Consequently, we must rely upon the federal government to maintain equitable policies towards all sectors of higher and postsecondary education.

State	Total 1972-73 appropriations for higher education [1]	Direct appropriations to institutions of private higher education, 1972-73 [2]	Total State scholarship funds appropriated, 1972-73 [3]	Percent of State scholarship dollars awarded to private institutions [4]	Total State appropriations to private higher education (direct and indirect)	Percent of total State appropriations for higher education to private institutions	Percent of State enrollments in private institutions
Alabama	$106, 440, 000	475, 000	None		$475, 000	0. 4	15. 0
Alaska	21, 978, 000	1, 337, 000	4, 200, 000	28. 5	2, 537, 000	11. 5	8. 6
Arizona	112, 712, 000	None	None		None	0	1. 9
Arkansas	56, 371, 000	None	None		None	0	15. 7
California	1, 009, 272, 000	None	26, 708, 236	80. 0	18, 800, 000	1. 9	10. 3
Colorado	115, 243, 000	None	None		None	0	11. 4
Connecticut	113, 724, 000	1, 194, 000	2, 026, 000	38. 6	1, 976, 036	1. 7	39. 7
Delaware	25, 887, 000	None	None		None	0	14. 8
Florida	302, 112, 000	3, 055, 000	600, 000	55. 8	3, 385, 000	1. 1	18. 6
Georgia	177, 819, 000	None	2, 800, 000	100. 0	2, 800, 000	1. 6	18. 6
Hawaii	64, 478, 000	None	None		None	0	9. 3
Idaho	36, 785, 000	None	None		None	0	21. 0
Illinois	516, 726, 000	26, 250, 000	59, 700, 000	60. 0	62, 070, 000	12. 0	29. 0
Indiana	218, 595, 000	None	16, 534, 875	52. 0	8, 598, 135	4. 1	26. 8
Iowa	125, 505, 000	500, 000	4, 223, 154	97. 0	4, 600, 000	3. 7	35. 4
Kansas	93, 087, 000	819, 000	1, 150, 000	87. 0	1, 819, 000	2. 0	12. 6
Kentucky	139, 485, 000	None	2, 500				19. 3
Louisiana	146, 664, 000	None	None		None	0	15. 5
Maine	33, 612, 000	None	180, 000	87. 0	150, 000	. 4	28. 4
Maryland	159, 156, 000	2, 000, 000	3, 425, 000		2, 000, 000	(6)	19. 7
Massachusetts	154, 451, 000	None	8, 000, 000	80. 0	6, 400, 000	4. 1	59. 7
Michigan	417, 815, 000	2, 744, 400	13, 832, 000	58. 5	10, 810, 400	2. 6	13. 2
Minnesota	174, 040, 000	3, 335, 000	5, 000, 000	50. 0	5, 835, 000	3. 4	18. 8
Mississippi	None		None		None	0	11. 8
Missouri	161, 464, 000	None	105, 000				27. 7
Montana	30, 798, 000	None	None		None	0	9. 0
Illinois	516, 726, 000	26, 250, 000	59, 700, 000	60. 0	62, 070, 000	12. 0	29. 0
Nebraska	56, 780, 000	None	500, 000	100. 0	500, 000	. 9	21. 0
Nevada	20, 656, 000	None	None		None		. 8
New Hampshire	12, 880, 000	None	None		None		45. 1
New Jersey	236, 280, 000	11, 931, 000	23, 222, 367	55. 1	24, 703, 302	10. 5	30. 5
New Mexico	50, 968, 000	[7] None	None		None		8. 2
New York	822, 425, 000	50, 720, 000	121, 100, 000	35. 0	93, 073, 800	11. 3	40. 5
North Carolina	223, 486, 000	1, 748, 500	None		1, 748, 500	. 8	27. 1
North Dakota	27, 476, 000	None	None		None	0	4. 3
Ohio	325, 105, 000	2, 680, 000	16, 160, 000	45. 6	10, 048, 960	3. 1	24. 7
Oklahoma	81, 720, 000	None	(8)		None	0	15. 9
Oregon	106, 990, 000	1, 000, 000	1, 296, 303	15. 8	1, 204, 816	1. 5	11. 6
Pennsylvania	388, 874, 000	28, 242, 000	58, 832, 049	46. 5	55, 598, 903	14. 3	42. 4
Rhode Island	40, 029, 000	None	539, 400		(6)		44. 7
South Carolina	104, 980, 000	200, 000	150, 000	100. 0	350, 000	. 3	30. 4
South Dakota	22, 736, 000	None	None		None	0	21. 0
Tennessee	127, 994, 000	220, 000	1, 170, 000	70. 8	1, 132, 600		25. 4
Texas	463, 528, 000	7, 000, 000	3, 000, 000	100. 0	10, 000, 000	2. 2	17. 1
Utah	57, 195, 000	None	None		None		38. 4
Vermont	16, 743, 000	None	2, 380, 000	22. 1	526, 055	3. 1	44. 8
Virginia	185, 756, 000	None	750, 000		None		17. 5
Washington	190, 467, 000	None	1, 734, 200	64. 2	1, 113, 492	. 6	11. 2
West Virginia	77, 922, 000	None	425, 000	21. 2	107, 100	. 1	18. 2
Wisconsin	257, 243, 000	1, 877, 000	4, 921, 523	81. 3	5, 879, 215	2. 3	14. 7
Wyoming	18, 316, 000	None	None		None		0
Total	8, 528, 509, 000						

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[1] Source: "Chronicle of Higher Education," Nov. 13, 1972 compiled by M. M. Chambers.

[2] Source: Education Commission of the States.

[3] Source: National Association of State Scholarship Programs, "Fifth Annual Survey," and Education Commission of the States.

[4] Source: National Association of State Scholarship Programs, Ibid.

[5] Source: Fall enrollment, higher education, 1970. Department of HEW.

[6] Not computed.

[7] Participatian in WICHE.

[8] Not funded.

DISTRIBUTION OF VETERANS COST-OF-INSTRUCTION PAYMENTS

	State totals	Percent of national total	Public totals	Percent of state total	Private totals	Percent of state total
Alabama	$696, 948. 70	2. 8	$676, 027. 44	97	$15, 287. 68	2. 0
Alaska	28, 202. 89	. 1	28, 202. 89	100	----------	----------
Arizona	535, 148. 59	2	532, 616. 19	99	2, 532. 40	. 5
Arkansas	83, 515. 76	. 3	68, 827. 86	82	14, 687. 50	18. 0
California	6, 032, 193. 94	24	5, 962, 266. 51	98	57, 018. 89	. 9
Colorado	464, 348. 15	1	462, 512. 17	99	1, 865. 98	. 4
Connecticut	135, 223. 27	. 6	128, 825. 64	95	6, 397. 63	5. 0
Delaware	39, 452. 06	. 1	33, 161. 05	84	6, 291. 01	16. 0
Florida	897, 014. 65	3. 6	853, 216. 54	95	43, 979. 12	5. 0
Georgia	398, 392. 55	1. 6	376, 174. 12	94	22, 218. 43	6. 0
Hawaii	118, 822. 70	. 5	108, 159. 98	90	10, 662. 72	9. 0
Idaho	130, 644. 98	. 50	130, 644. 98	100	130, 644. 98	0
Illinois	1, 391, 085. 07	5. 6	1, 297, 752. 95	93	84, 88. 191	7. 0
Indiana	209, 115. 92	. 8	193, 541. 69	92	15, 574. 23	8. 0
Iowa	249, 860. 84	. 9	243, 663. 14	97	6, 197. 70	3. 0
Kansas	108, 733. 08	. 4	100, 646. 09	92	8, 037. 02	8. 0
Kentucky	255, 012. 28	1	252, 519. 87	99	2, 492. 41	1. 0
Louisiana	336, 802. 01	1. 3	329, 884. 57	98	6, 917. 44	2. 0
Maine	119, 062. 60	. 5	117, 169. 97	98	1, 392. 63	2. 0
Maryland	435, 891. 99	1. 7	430, 613. 94	99	3, 038. 88	. 7
Massachusetts	475, 470. 68	1. 9	344, 425. 85	72	131, 044. 85	28. 0
Michigan	764, 796. 96	3. 0	691, 221. 14	90	73, 572. 78	10. 0
Minnesota	196, 793. 86	. 8	179, 000. 43	90	8, 676. 80	. 4
Mississippi	225, 663. 12	. 9	216, 333. 24	96	9, 329. 88	4. 0
Missouri	561, 598. 81	2	527, 451. 44	95	27, 736. 54	5. 0
Montana	13, 208. 44	. 05	13, 208. 44	100	0	----------
Nebraska	44, 050. 36	. 2	31, 095. 16	70	12, 955. 20	30. 0
Nevada	35, 626. 82	. 1	35, 626. 82	100	0	----------
New Hampshire	177, 380. 82	. 7	63, 443. 19	36	114, 437. 63	65. 0
New Jersey	553, 701. 73	2. 2	525, 168. 95	94	22, 071. 83	4. 0
New Mexico	108, 653. 12	. 4	71, 760. 11	66	36, 893. 01	34. 0
New York	1, 471, 568. 68	5. 9	1, 180, 249. 84	80	194, 767. 91	13. 0
North Carolina	754, 680. 70	3	693, 716. 61	91	57, 715. 30	9. 0
North Dakota	84, 568. 69	. 3	81, 263. 25	96	3, 305. 44	4. 0
Ohio	635, 718. 01	2. 6	604, 542. 87	95	31. 175. 14	5. 0
Oklahoma	400, 205. 22	1. 7	377, 993. 04	94	16, 647. 18	4. 0
Oregon	361, 866. 07	1. 4	352, 802. 75	97	9, 063. 32	3. 0
Pennsylvania	573, 867. 56	2. 3	541, 866. 08	94	31, 001. 85	5. 0
Rhode Island	47, 582. 38	. 2	0	0	47, 582. 38	100. 0
South Carolina	457, 550. 66	1. 9	421, 490. 66	92	36, 060. 00	8. 0
South Dakota	27, 989. 65	. 1	22, 431. 70	80	4, 438. 36	20. 0
Tennessee	249, 780. 85	. 9	228, 437. 52	91	21, 145. 43	9. 0
Texas	1, 533, 818. 92	6	1, 476, 733. 38	96	39, 332. 11	4. 0
Utah	159, 740. 88	. 6	159, 740. 88	100	0	----------
Vermont	29, 402. 46	. 11	23, 444. 66	79	5, 957. 80	21. 0
Virginia	465, 054. 56	1. 9	459, 843. 15	98	5, 211. 41	1. 0
Washington	913, 348. 57	3. 7	880, 574. 04	96	27, 922. 99	3. 0
West Virginia	87, 714. 20	. 4	75, 598. 69	86	12, 115. 51	14. 0
Wisconsin	476, 403. 65	1. 9	460, 956. 03	97	15, 449. 62	3. 0
Wyoming	28, 556. 09	. 11	28, 556. 09	100	0	----------
Washington D.C	179, 820. 12	. 7	143, 207. 00	79	36, 613. 12	21. 0
Puerto Rico[1]	212, 694. 62	----------	----------	----------	210, 828. 64	----------
Virgin Islands[1]	2, 185. 86	. 008	2, 185. 86	100	0	----------
Aq (Pago Pago)[1]	4, 118. 48	----------	0	----------	0	----------
Total	24, 762, 154. 64	----------	23, 238, 610. 60	94	1, 341, 889. 36	5. 0

[1] Excluded from totals.

APPENDIX 2

TUITION ASSISTANCE FOR PRIVATE INSTITUTIONS

Two major associations, both composed of public and private institutions in their constituency, have not endorsed raising public tuitions as a means of aiding private colleges and universities. Conversely, they propose encouraging public aid for private institutions.[1] The reading of the literature on state aid for private institutions, however, is not a basis for optimism. Consequently, we believe that any serious initiative to assist private higher education will have to come from the federal government.

Such an objective, of course, is full of difficulties. The effort to go beyond rhetoric to concrete support from the public institutions and, indeed, from the associations noted earlier, is questionable. All proposals advanced to this end are presented as being so obstructed with obstacles that effort is soon defeated.

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[1] See ACE's *Higher Education and National Affairs*, Feb. 15, 1974 and AAC's *Annual Board Report*, January, 1974.

Indeed, there are formidable obstacles, but no more or less than legislating equitable student aid programs. Yet, the facts imply that there is a need. If states are going to maintain low-tuitions at public institutions, and as a corollary, continue to increase tax subsidies, *then there is every reason to give serious consideration of the same causes which demand increased subsidies to public institutions, to the impact of such causes and subsidies upon private institutions.*

Studies have shown the increase of the tuition differential between public and private institutions—standing now at something like 1 to 4-5.[2] This plus the reduction of federal student aid funds reaching private institutions, is causing real distress.

Not only, however, is the tuition-differential increasing, but over the past 20 years, tuition payments at private institutions unlike those at public institutions, have continued to pay an increasingly higher percentage of the cost of instruction.[3] In other words, the private institutions are relying more and more upon tuition payments to pay for instructional costs. This can be interpreted to mean that private colleges are maximizing their market resource.

TABLE 3.—GROSS AND NET TUITION PER FULL-TIME-EQUIVALENT STUDENT (FTE) IN PUBLIC AND PRIVATE COLLEGES AND UNIVERSITIES, AND RATIO OF PRIVATE TO PUBLIC TUITION CHARGES, 1953-54 THROUGH 1967-68

	Gross tuition per FTE			Net tuition per FTE		
Academic year	Public (1)	Private (2)	Ratio, private to public (3)	Public (4)	Private (5)	Ratio, private to public (6)
1953-54	$139	$464	$3.3	$118	$411	$3.5
1955-56	141	502	3.6	119	442	3.8
1957-58	162	584	3.6	134	510	3.8
1959-60	175	673	3.8	144	582	4.0
1961-62	194	796	4.1	158	684	4.3
1963-64	218	896	4.1	176	764	4.3
1965-66	241	1,045	4.3	196	886	4.5
1966-67	254	1,078	4.2	190	896	4.7
1967-68	279	1,152	4.1	203	948	4.7

TABLE 5.—INSTRUCTIONAL COSTS PER FULL-TIME-EQUIVALENT (FTE) STUDENT AND GROSS TUITION AS A PERCENTAGE OF INSTRUCTIONAL COSTS, PUBLIC AND PRIVATE COLLEGES AND UNIVERSITIES, 1929-30 THROUGH 1967-68

	Instructional costs per FTE			Tuition as a percentage of instructional costs		
Academic year	All schools	Public	Private	All schools	Public	Private
1929-30	$398	$372	$448	35.9	16.9	50.4
1931-32	395	328	476	35.7	18.3	49.2
1933-34	412	333	498	34.5	19.5	45.5
1935-36	386	316	468	36.7	22.1	47.9
1937-38	386	316	470	37.0	22.1	48.5
1939-40	389	322	470	37.8	19.9	50.8
1941-42	448	384	526	35.0	20.3	47.7
1943-44						
1945-46	484	426	549	37.0	21.4	49.7
1947-48	512	479	552	54.0	40.5	66.7
1949-50	609	571	647	47.5	31.0	64.3
1951-52	773	762	784	36.9	20.6	54.8
1953-54	896	874	924	31.4	15.9	50.2
1955-56	885	840	944	33.1	16.8	53.2
1957-58	1,000	946	1,081	33.1	17.1	54.0
1959-60	1,089	1,028	1,187	34.2	17.1	56.7
1961-62	1,154	1,156	1,313	36.6	18.4	60.6
1963-64	1,260	1,134	1,487	36.3	19.2	60.3
1965-66	1,316	1,176	1,596	38.4	20.5	65.5
1966-67	1,400	1,268	1,691	36.9	20.0	63.7
1967-68	1,537	1,417	1,812	35.5	19.7	63.6

Source: Instructional costs per FTE student: 1929-30 through 1966-67, derived by multiplying costs per student credit hour by 28 (28 credit-hours equal a full-time-equivalent student), costs per credit-hour from June O'Neill, "Resource Use in Higher Education: Trends in Output and Inputs, 1930 to 1967," Carnegie Commission on Higher Education, Berkeley, Calif., 1971, (table E-1). For 1967-68 instructional operating expenditures based on data from "Financial Statistics of Institutions of Higher Education," for 1967-68 (U.S. Office of Education), calculating procedure same as in O'Neill (1971); capital costs of instruction estimated by extrapolation. (See ibid, chap. 3.) FTE students, from ibid. (table A-10) by dividing credit-hours by 28. Tuition, see appendix table A-9.

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[2] Table from: June A. O'Neill, *Sources of Funds to Colleges and Universities*, A Technical Report Sponsored by the Carnegie Commission on Higher Education, 1973, p. 5, Table 3.

[3] *Ibid.*, p. 9, Table 5.

While this is true, it may have served to weaken their competitiveness and their quality in relation to the public sector, by stretching that resource to its limit. In addition, at the point in time when private colleges are maximizing market resources, a student aid program was enacted into law which literally wipes out the gain. The BEOG program largely subsidizes public college students, provides incentives for low price institutions only, and then pays mostly welfare aid to students attending them. What students do enroll at private institutions will be required to be awarded additional aid from institutional resources—already taxed beyond reasonable limits.

APPENDIX 3

STUDENT AID PROGRAMS

Present student aid programs cover in principle the range of needs to be met by eligible students to attend postsecondary institutions. The formulas (and funds appropriated), however, require improvement, not only insofar as they are inequitable to students wishing to attend private institutions but also by reason of some of their own inherent weaknesses. One such weakness is the failure of the range of programs to exert maximum leverage on all non-federal sources of student aid for those attending both public and private institutions. Secondly, and this may be Monday morning quarterbacking, the programs should have been in line with the advice of the National Commission on the Financing of Postsecondary Education which states, "At any given level of financing, targeted student assistance plans (such as grants to needy students) are more effective for improving access than general student assistance (such as tuition reduction). (p. 310) It is interesting to note in this regard that the largest amount of funds possibly and potentially available for all types of student aid, 5 billion dollars, derives from Plan A of the National Commission's report.

BASIC EDUCATIONAL OPPORTUNITY GRANT PROGRAMS

BEOG relates parental contribution to total student need based on cost-of-attendance and awards a grant in aid up to $1400 on the difference. The award is ½ of total need up to a maximum of $1400.

Cost-of-attendance is quite different from tuition. The non-tuition items, according to one estimate, amount to a national average between $1850 and $1950 for residential students at public private colleges respectively. (*Los Angeles Times*, April 21, 1974. "Hold Down U.S. Tuitions. . ." by Howard R. Bowen) Thus, if a college has no tuition, a BEOG grantee at that institution could receive up to $925 for non-educational expenses. (At the expected funding levels for the next academic year, however, the maximum receivable by a student attending a tuition free institution would be $750. The *BEOG Payment Schedule*, published by the Office of Education in May, 1974, states, "With a few specific exceptions, all students will have a minimum cost-of-attendance $1500 ($1100 living allowance and $400. . .). Students who are attending tuition free institutions with no on-campus living facilities are still provided the $1500 minimum allowance.")

Using as an example the national average public tuition, $540, (setting aside tuition-free institutions), an enrolled student could receive ½ of $1850 + $540), or $1200. (Our intention here is not to identify with exactness the average public and private tuition costs or non-educational costs. These vary from one report to another. For example, a recent ACE research report stated that $377 was the average public tuition and $1921 the average private tuitions for the academic year 1973–74. That amounts to a 1 to 5 tuition dollar difference, whereas the one used herein is only 1 to 4. Our intention, rather, is to call attention to the tuition differential itself, as well as the lack of difference in the non-tuition expenses at public and private institutions, in order to underline the fact that the crux of the issue in student aid programs for private institutions is precisely the tuition differential and not general cost-of-attendance.)

The end result (in rounded figures) is:

	Average tuition	Other expenses	Total	½ costs	Maximum BEOG grant	Unmet need
Public	540	1,850	2,400	1,200	1,200	1,200
Private	2,080	1,950	4,040	2,020	1,400	2,640

The BEOG student choosing the private college has 2¼ times the unmet need of the public school student. If the private school student could receive up to ½ cost of attendance, in the cases above, he or she would have $2020 unmet need, rather than $2040—still $800 more than the public college student, but only about one-half of what it now is: $800 rather than $1440. What should be done to provide a choice to the BEOG grantee?

The issue is complex:

(*a*) should the maximum grant be raised to $2,500?

(*b*) should the grant be based on tuition alone?

(*c*) should the award discriminate between public and private (by providing a higher percentage, say ⅔ rds. of costs to students at private colleges, for example)?

(*d*) should a tuition offset grant be appended to BEOG either for private or for high tuition colleges?

The basic for these questions is the evident disparity between costs of attendance rooted in tuition differentials which produces what amounts to a full award (full ½ or 50% costs) to a student at a public institution (on the basis of a national average cost), but an award of only ⅓ of costs (35%) to a student at a private institution. And at the public institution, the BEOG award goes more for non-tuition expenses, both because the tuition is low, and because average summer and term time savings alone ($500) can meet the average public tuition.

Your attention should be called once again to the testimony of Dr. Jerry S. Davis of the Southern Regional Education Board, given here on June 12, 1974. No matter how you figure BEOG awards under the present program, including full funding, or reducing all other student aid programs to one BEOG program, the private college student suffers severe financial discrimination.

CAMPUS-BASED AID PROGRAMS

It is known by everyone that none of these programs have been funded sufficiently to provide adequate aid to prospective recipients. The difference between the sums necessary to meet panel-approved requests and appropriation levels has continued long enough to call it a trend.

	BEOG. SEOG (initial and renewal)	CWS	NDSL
Fiscal year:			
1963:			
Panel approved	115.3	158.8	230.2
Actually appropriated	112.0	134.1	190.0
1969:			
Panel approved	159.9	197.7	246.7
Actually appropriated	140.6	139.9	190.0
1970:			
Panel approved	189.9	219.3	273.4
Actually appropriated	124.6	139.9	188.6
1971:			
Panel approved	220.0	234.4	283.4
Actually appropriated	164.0	158.4	236.5
1972:			
Panel approved	259.0	305.6	337.1
Actually appropriated	177.6	156.4	309.6
1973:			
Panel approved	361.2	470.6	454.1
Actually appropriated	210.2	270.2	286.0

Source: National Association of Student Financial Aid Administrators.

It is worth noting in respect to the shortage of funds, the percentage of funds going to private institutions is diminishing. A report by the College Entrance Examination Board of December, 1973, states:

> "An interesting shift of SEOG (Supplemental Educational Opportunity Grant) monies has occurred since 1970–71 when private institutions received 44% of the institutional allocations compared with 32% in 1973–74; in 1970–71, allocations of SEOG funds to public institutions was 56% of the total compared with the current 62%.

Another document entitled, *Selective Statistics Concerning the Distribution of College Work-Study Program Funds for Use during FY 1973*, noted that there was a net shift of $5 million from private to public institutions in the Work-Study program that year.

Simply speaking, the private colleges are losing a proportionate share of federal funds for student aid. While the mechanisms are in part responsible for the losses, basically the principles behind the targeting of student aid are mainly responsible. The private college student is not given a fair share by reason of the tuition differential between public and private institutions: all students are treated alike before the standard of low tuition or tuition free public higher education. We cannot agree that this is sound federal policy.

Others more competent than ourselves have testified before you on the technical difficulties with the campus-based programs. A few additional comments on specific points might be useful, however, in view of our recommendations that their orientation be changed.

It is not surprising to see the default rate rise in the loan programs. Once loans were made available, and even targeted, to the low-income student, only time was needed to see that the loan would be taken "in place of a grant," and finally, "for a grant." This form of targeting is unrealistic; grants should be the major vehicle for low-income students, and loans, if necessary, for high-income students. We have suggested taking a serious look at the idea of an Education Security Fund, with pay-in and pay-out provisions. At this time the American Council of Education is investigating the advantages and disadvantages of such a Fund, and we firmly support that effort. If targeted properly, and with moderate incentives for the target group, we believe that a Fund would sufficiently answer the loan need for both the upper-income groups and for those interested in adult and continuing lifetime education.

Having reviewed the testimony of Dr. Natalie Friedman, and her major study of the College Work-Study program, there can be no doubt that the value of this program has been indescribably underestimated. Her study also shows the importance of the "packaging" concept for federal aid programs, giving the campus student aid administrator the flexibility to provide grants, work-study and loans to match the different needs of diverse income groups. (See Chapter 3.) In addition, it shows the total inadequacy of looking upon the BEOG program as a "floor" in any other sense than its use for the student aid administrator on campus. To understand BEOG as a federal "floor" program in an administrative sense would be to ignore the special targeting possibilities for distinct income levels in each of the federal student aid programs.

With respect to the CWS program itself, and our recommendation that it be oriented to non-tuitional expenses, Dr. Friedman's study indicates that two-thirds of the students (whether receiving CWS alone, or in combinations with EOG and NDSL) in her survey spend CWS earnings on basic living expenses. (See Chard 3.4, p. 118)

Thus, the present range of programs should be recommitted to meet direct educational cost: first—those associated with institutional instructional costs represented by tuitions at private institutions. The BEOG and SEOG should be targeted to this need. Possibly a new federal program of cost-of-living grants, along with Work-Study, should be directed at non-instructional expenses. Loan programs would then be a "topping off" procedure, especially for those whose resources limit their access to grants.

Mr. O'Hara. Our next witness is the distinguished president of a great State university and, although he is not my constituent, he does have a certain responsibility for the postsecondary education of many of my constituents. I hope President Clifton Wharton of Michigan State University, will contribute further to my own continuing education, as he has been doing for some time now.

President Wharton, will you please take your place at the witness table.

STATEMENT OF DR. CLIFTON R. WHARTON, JR., PRESIDENT, MICHIGAN STATE UNIVERSITY

Dr. Wharton. Mr. Chairman and distinguished members of the subcommittee, I have a very brief written statement, in which I tried to be responsive to the inquiry which I received very recently, and, of course, I would be very glad to amplify on this afterward.

I appreciate very much the opportunity to speak briefly on the subject of Federal institutional aid to higher education. My perspective is that of a major single-campus public university—in fact, the second largest single campus in the Nation—and one with a significant research and postgraduate program.

It is often said, when milestone legislation finally is passed after years of effort, that it is an idea whose time has come. Just 2 years ago this month, when Congress adopted the Higher Education Act of 1972 and included a version of institutional aid, we in higher education did a mild amount of rejoicing at the timely arrival and acceptance of this idea. Then Secretary of Health, Education, and Welfare Elliot Richardson termed it "truly a landmark in the history of higher education."

But what do you say about an idea who time has come—and passed? For 2 years, the program to assist colleges and universities with the cost of education has been on the Federal statute books but not one cent has been appropriated to carry it out.

I will acknowledge that we at Michigan State University were not so naive as to begin apportioning the dollars from the program into our next year's budget. However, we did go so far as to price out the provision insofar as it would affect our university. This exercise showed that, if fully funded, the program would have provided as much as $4,300,000 to MSU.

Now, this represents only about 2.2 percent of our annual budget. Yet it is obvious that it would have made a significant contribution to our ability to cope with rising costs and the ravages of inflation, not to mention improving the quality of our education product.

And had we received even only half of those authorized funds, Michigan State University would have found it unnecessary to adopt last year's tuition increase for our 41,000 students.

Today, I realize that we are faced with a national administration which is philosophically opposed to any new instiutional aid and which also seems determined to eliminate such programs as do exist.

As you know, it is now proposed that capitation grants in the health and medical education field be phased out, eliminating vital support needed to expand these programs. And for several years, the administration has sought to excise even the annual $12 million that is shared by all the land-grant institutions under the Morrill-Nelson Act—amounting to about $200,000 in our case.

Yet, in fighting this concept, the administration apparently has no hesitancy in asking colleges and universities to provide institutional aid to the Federal Government.

To cite a recent example, the Veterans' Administration, in a burst of reaction to criticism that college-going veterans were being plagued by erors affecting their checks and other Federal benefits, adopted a program to put full-time VA employees on each campus to straighten out their own error.

If one can accept the incongruity of attempting to correct errors at the terminal point rather than at the source, perhaps this isn't a bad idea. But in the case of MSU, based on the number of student veterans, the VA's error quotient would establish three full-time employees on our campus.

While the VA would pay their salaries, the institutions are asked to pay all other support costs, such as space, telephone, utilities, and the like. We figure it would cost our university up to $3,500 a year for each VA employee simply to permit the VA to correct its own errors.

Because we already have a long established and effective veterans' assistance program on our campus and because of the high cost of the institutional aid we would have to provide the Government, we are suggesting that only one of the proffered VA troubleshooters be sent to our campus until the true need is determined.

But to return to the basic issue of Federal institutional aid to colleges and universities, I do not want to leave the impression that we expect the Government to simply aim the money spigot in our direction and turn it on. In the case of a State university such as MSU, the primary financial support must continue to come from State taxpayers through the State legislature and from the students who attend.

Furthermore, we recognize that any Federal institutional assistance may, and probably should, have broadly designed purposes.

The Higher Education Act, for example, referred to the authorized aid as a "cost-of-education payment," and the Act's formula linked it to the number of students receiving the various forms of Federal financial assistance.

There was, and is, considerable merit and sound logic in this approach. The Government's commendable efforts provide massive amounts of money to help eligible students obtain postsecondary education. Nevertheless, all of this assistance is directed to the individual student.

In a public university such as MSU, however, what the student pays in tuition and fees represents less than a third of the actual cost of his or her education. So helping the student tends to increase the demand on educational facilities without corresponding support for strengthening and improving the educational output.

If we are genuinely interested in providing access to the financially and educationally disadvantaged student, the type of program authorized in the Higher Education Act is a good way to do it. Payment of tuition is only a small part of the cost. To assure these students that they can expect to see graduation day requires a rather massive educational support program on campus to provide the necessary counseling, remedial education, and other services. Without this, their initial admission is an empty promise.

Furthermore, as noted earlier, such assistance would do much to alleviate the almost constant increases in tuition for all students, thus lessening the impact on the student from the hard-pressed middle-income family, as well as permitting existing Federal student aid to be spread farther.

Another institutional aid approach might well be designated to encourage and expand college and university programs in research, graduate students, and professional education.

The advantage of this type of support are several-fold:

1. It would permit more students, particularly minorities, to enter into postbaccalaureate education without feeling that they are plunging irretrievably into debt or forsaking their families' welfare.
2. The ability of our universities to produce high quality research doctorates would be enhanced.

3. It would improve the quality of graduate education by helping to underwrite long-needed innovation and experimentation.

4. It would encourage universities to expand access to high-cost graduate programs, including those where women and minorities are in short supply.

The justification for Federal institutional aid in this area should be obvious. Put most simply, by expansion and improvement in graduate education and research, we are helping the Nation as well as the individual student.

We become fascinated by figures such as those released recently by the Bureau of the Census which show that today's male 4-year college graduate will have lifetime earnings of a quarter-million dollars more than the youth with the high school diploma and the graduate student will earn still another $113,000.

While these figures demonstrate the worth of post-secondary education and help motivate the would-be dropout, they do not display the national social benefit of more physicians, engineers, biophysicists, entomologists, or other highly skilled technicians. Nor do they attempt to quantify the social value of a research-produced vaccine, cancer cure; new energy source, or improved food production.

The Federal Government has long recognized the vitality and necessity of research through grants and fellowships by the National Science Foundation and similar programs. But important as these categorical programs have been, a very strong case can be made for building up the general research and graduate study capacity of our higher education institutions.

Another factor of importance in a Federal investment in graduate education is the mobility of these students. Particularly in the graduate area, students from all over the Nation gravitate to the institutions offering the specialized education they seek. When this education is obtained, they may remain in the State but they also are very likely to migrate to another part of the country.

Thus, the graduate education which the people of Michigan help support may ultimately wind up to the benefit of the people of California, and vice versa. The Federal dollar spent in graduate education, then, is very often a dollar spent for the national good.

Even in those present programs where there are federally funded graduate fellowships, the dollars provided fall far short of the actual cost to the university to support the students. Interestingly—and this is a correction in my text—the Government does recognize the additional institutional costs to support such students, and the Government does recognize it to some extent by permitting indirect costs to accompany research grants. Why the same principle is not applied to under graduate fellowships is a mystery.

Finally, we have been asked whether we do not fear possible Federal controls if we accept Federal institutional aid. Certainly, we fear unwarranted intrusion into the educational process to the point where it would be antithetical to the cherished concept of academic freedom and the ability to experiment and innovate.

However, we in education are already subject to stringent Federal controls through affirmative action and categorical grant requirements and guidelines and are inundated with reporting forms. Perhaps one more form to account for institutional aid funds might be the final straw, but I suppose we would be glad to risk it.

My points, if I may summarize them, are these:

1. Institutional aid to higher education is a legitimate, and necessary, expenditure of Federal dollars.

2. Most Federal programs carried out on campus, including student aid, fellowships, and research, produce administrative costs which are not covered by the Federal dollars and which must be borne by the institution.

3. The Federal Government has recognized the principle in part by authorizing "cost-of-education payments" in the High Education Act of 1972, but this program has not been funded.

4. Institutional support would enable colleges and universities to better resist continuous tuition increases, thus benefiting all students and particularly those from middle-income families who have no financial aid eligibility.

5. Federal institutional aid may take many forms. An especially important one would be assistance to help improve the quality and availability of graduate education.

In substance, then, we do not ask for a Federal handout or "no strings" funds but rather for an investment in American education.

In the immediate post-Sputnik days after 1957, it was easy to get practically anything through Congress simply by labeling it "national defense." I would submit that, today, new approaches to the strengthening of education are every bit as important, if not more so, than the contents of our defense budget.

I would like to append to my prepared remarks a few general comments.

First, I think that my statements need to be placed in a somewhat broader context. I believe that within the broader context there is a range of issues, such as inflation and the cost-revenue squeeze which most universities are experiencing.

Second, there is the issue of the public-private cost differential alluded to by the previous witness.

Third, there are the prospects of declining enrollments.

And, fourth, the efficiency-versus-quality conflicts that all institutions face under the presence of the cost-price squeeze.

There are the broader issues of the personal versus social or public benefit from education. This is an issue which has underlaid, I think, to a considerable extent the whole question of public support for higher education.

There is also the corresponding broader issue of the share of the costs which should be borne by the individual as opposed to the public sector.

Another much broader issue is the proper roles for private, State, and Federal support, and then the whole question of public versus private institutions in terms of a subsidy. It is in my view that the balance lies among the alternative sources and measures, not as substitutes, but as complements which reflect, I think, the underlying rationale and philosophy of education.

This conflict of rationales and philosophy was best expressed by Howard Bowen when he said, "Financing higher education is not merely a matter of technique to be decided by experiments but a matter of educational and social values."

The investment in education partakes of a significant social and public benefit, and to the extent that State institutions are supported by State and Federal funds, it is a reflection that there is a local, State, and National interest in an investment in education.

I would be glad to amplify on any of these points afterward. Thank you very much.

Mr. O'HARA. Thank you very much, Dr. Wharton.

We very much enjoyed your testimony. You know, as to the program of institutional assistance, payments to institutions of higher education—there seems to be rather remote possibilities of funding that program in the immediate future, it would seem to me, given our general budgetary situation and the notion that the student assistance programs are not being properly funded, with the idea that it is slowly dawning if you are going to have student assistance programs like those now on the books, that they could use a great deal more money than they are not getting.

I think this poses a very difficult situation in terms of institutional aid.

Of course, I have to confess I have a little doubt, I am a little dubious, about the institutional aid. Really, the theory, I guess, is if we help a student attend an institution of higher education, we therefore ought to help the institutions to educate him.

I am not sure that I know why our obligation is any greater in that case than in the case of some other citizen that is attending your institution. I am not sure of that. I think that is one of the problems.

You remember the fight, of course, over the whole theory. I think that really has not ever died down in a sense. No one brings it up any more, but I think there are a lot of people who were not enthused about the way it was put together in the first place.

We had Dr. Bowen before us, and he was very interesting.

Dr. WHARTON. I wonder if I could make a comment in response to this. Putting on a different hat, as a one-time economist, I would argue that in today's highly dynamic and mobile world and particularly at the graduate level, there is a failure to recognize that there are sizable inflexibilities within the institutions of higher education, which are exacerbated by instabilities on the level of funding. If you tie all aid to students as opposed to institutions, then there are very few institutions that would be able to respond quite as rapidly and as responsively as you would like. Also, it means that increasingly the States would not provide various forms of funding, and will say that there is a lessened requirement for them to make an investment in education because they already believe that there is a substantial drain of their investedd ollars when the graduates of their universities leave the State.

In our case, at Michigan State University, for example, we receive from the State something on the order of $85 million. There is, as you undoubtedly are aware, Mr. Chairman, a net outflow of physicians, graduating from our medical schools, out of the State of Michigan.

The question immediately arises: How much State dollars should go in? How much Federal dollars should go in? To what extent does the Federal Government bear responsibility for what is in fact viewed as a transfer of an investment of human capital from State dollars to Federal dollars? This also obtains in other fields not supported as well by the Federal Government.

As one increases mobility, job mobility, occupational mobility, I believe that increasingly the institutions feel that they can no longer rely exclusively upon the kind of institutional support the State provides, but that the Federal Government also has a responsibility.

One other question with regard to the earlier debate on the equity of providing financial institution support for one group of students and not another. There are, to be sure, similar arguments to be raised with regard to any kind of differential funding on the basis of an income variable. The universities, on the other hand, believe that to a great extent they have played their part in trying to be responsive to that need.

The demand for their services has been generated by the increased provision of tuition and grant support, without the corresponding broader institutional support that we need.

This is one of the reasons why I believe that it is very important that your committee recognize what I see as to what is likely to occur down the road.

Mr. O'HARA. I think that is a good point. I especially appreciate your points with respect to graduate education or suitability of institutional support in terms of graduate programs.

You see, the situation, of course, has changed, too. At the time the institutional support was argued and enacted, the institutions of higher education were bulging with students.

In effect, you were saying if you are going to ask this poor, overburdened institution to take on an additional load—that is, admit the additional students—you are going to have to help them do this.

Well, of course, now the institution is competing for students, scrambling for students, and most of them are delighted if we help someone to attend their institution. They are faced with a different kind or problem, as you well know.

Mr. Dellenback, do you have any questions?

Mr. DELLENBACK. Perhaps Mr. Biaggi can proceed first.

Mr. O'HARA. All right, Mr. Biaggi.

Mr. BIAGGI. Yes, this one area; we understand, of course, what you are looking for and we have been looking for, and that is more money. As the chairman said, that is kind of a remote situation in light of things today.

On page 6 you make reference to the fact that you are inundated with reporting forms. I would like to get off on a tangent and question that I think relates to insofar as expenditure of money is concerned. How many Federal programs do you have which require reports, evaluation, and questionnaires, roughly?

Dr. WHARTON. I couldn't possibly guess, Mr. Biaggi. I could provide this to you. I know much more accurately the numbers that are required just by the State alone, which are fairly massive in volume. For example, last year within the State, and just in terms of evaluating our budget request, if I am not mistaken, just for the executive branch alone, we submitted a document that weighs approximately 7½ pounds, involving the very detailed statistical reporting that is required.

But I could provide you with a precise number. The impact, I would say, from my standpoint has been not nearly as severe in terms of what I think the final outcome that was intended. That is, the object of the exercise for much of this is either to insure a greater degree of accountability in the expenditure of public funds, which I think is a most acceptable objective; it also has in many cases been designed to improve the allocation of resources and judgment in regard to the budgeting process by the public body.

We made a quick calculation in the total State of Michigan in terms of just the State forms that were required, one set of forms by the executive branch and another set of forms by the legislature, and we found the exercise merely affected something on the order of only $1 million or $2 million out of the total State higher education budget for the State. It didn't improve the decisionmaking.

Mr. Biaggi. You lead me to my second question. It seems to me the institutions are being burdened by reports and questionnaires and evaluations, and I am not so sure they are all so necessary, and at least they are costly.

Dr. Wharton. Yes, very costly to the institution. They are also very costly in terms of the public sector handling them, implementing them, developing them. Add to this the old thought I am sure you are familiar with, which is that when you set up a new agency, they have empty files and they have to fill them.

Mr. Biaggi. That is the logic of the day. Thank you, Dr. Wharton.

Mr. O'Hara. Mr. Benitez.

Mr. Benitez. Thank you, Mr. Chairman. In the first place, I must say that I think you made an excellent statement; and Michigan State being one of the great universities, I congratulate you for both.

My experience concerning this question of requirements and quid pro quos that are attached to Federal or State or private grants or funds, I would think that of all the fears concerning the piper calling for the loan, the one "who pays the piper" calling for the loan, is the fairer government.

Of all the bureaucracies, the fairest government is the one who exacts less insofar as the basic university commitment and values. Is that your appreciation, too?

Dr. Wharton. On a comparative scale, yes, sir. I would, however, emphasize that I have no disagreement with the objective. What occurs that is probably most severely criticized by most institutions of higher education is that it is very difficult to produce measures of accountability which are universally applicable and which can then reflect the full complexities of higher education.

In the process, even though the requests for information may be minimal, they don't fit the categories, they don't fit the activities. Very often that has a distortive impact upon the university, but I would agree with you.

Mr. Benitez. But this pertains to the problems of your university and to a large extent the questions of fitting one set of accountability criteria into others.

What I am trying to say is that fear of getting Federal money, because the Federal Government would affect adversely the university values, and the goals and the activities of the institutions, it seems to me, is contrary to experience.

Dr. WHARTON. Well, there have been experiences, unfortunate ones, and let me just cite one.

The application, let us say, of the guidelines a few years ago with regard to maximum income a student could earn under work-study while receiving Federal student aid. Here was a case which, from the viewpoint of the students, the application of a ceiling on work expectancy earnings through work-study programs, was completely contrary to what most students believe was the American work ethic—that it was very good for a student to work his or her way through an institution of higher education.

We had numerous students who, two-thirds of the way through the school year, suddenly discovered they had to be fired from their jobs because they already reached their maximum earning expectancy.

Here is a case of a Federal instruction where the university had to respond against the best interests of the students concerned. It certainly was against what they perceived to be the longstanding American belief in the value of work and working your way through school.

This is just one simple example.

There are other instances where I think the objective was a good one, but where the application and implementation of it worked to the contrary. I would agree with you comparatively as between Federal and State.

Mr. BENITEZ. And foundation.

But the point I am driving at is quite a different one. I would think that, and I said this to one of the witnesses yesterday. I would think that the best way for universities to receive massive support as they need it. I think we would be fooling ourselves if we didn't realize that there must be a significant input of Federal money, this is where the money is really, to the dimensions that are necessary, and we must create a climate that would facilitate that.

But it seems to me that the universities and the persons engaged in higher education would advance best the cause of the universities and in the long run would get much more money, which they need, if they concentrated on the problem of how to comply with the educational involvement and commitments of the years ahead.

Everybody is perplexed today by the confusions of our times and by the difficulties of the future. I would hope that my former colleagues would concentrate on our common distress and anguish pertaining to the meaning and relevance of education, and I would guess that the satisfactory answer or at least a meaningful vision of a new interest and concern by the university leaders on the meaning, or changing meaning and lasting meaning of the educational ties, that would probably be the greatest help that we could get on this side in helping you to achieve your goals.

Dr. WHARTON. Congressman Benitez, I agree with you a great deal. I think, however, many universities have, in recent years, been doing a great deal to try to be responsive to these changing needs.

Let me cite something.

Mr. BENITEZ. Let me interrupt you for a moment. I think one of the greatest scandals of American education is the inadequacy of the medical training of an adequate number of doctors for this Nation and the brain drain that the United States is presently making on third world communities of their scarcely trained doctors. It is one of the extraordinary failures of American education and the fact of having hundreds of students, well qualified, trying to go into this profession and having no place to go in the United States is really outrageous.

Dr. WHARTON. Congressman Benitez, on that particular point, I can assure you I get more mail on that than anything else.

Mr. BENITEZ. What I want is more openings.

Dr. WHARTON. We have at our university three colleges of medicine—veterinary medicine, osteopathic and human medicine. Just for the M.D. medicine alone for the 90 openings this fall we have already received 3,000 applications.

Mr. BENITEZ. That is what I am saying and in all likelihood about 2,000 of those are valid applications.

Dr. WHARTON. Yes. By the time we get down to the 400 we interview on the basis of normal criteria used to evaluate them, they are virtually indistinguishable from one another so the task is a very big one.

But to return to the basic thrust of your remarks, I would like to link that up with a response to the chairman's comment a little earlier about the possibility of enrollment declines.

I happen to belong to a group which I suspect is in the minority in believing that universities today have not done nearly as much in preparing for a thrust toward the lifelong educational needs of our society.

I believe that very very strongly because I am firmly convinced that the dynamics of change in our society, which requires access to additional inputs of knowledge, is growing by leaps and bounds. If one were to look at the total body of knowledge in existence, it doubles every century, so if 1670 was one and you go to 1770 and 1870 and you get to 1970, over the next century we will add as much to total human knowledge as he has been accumulated since the beginning of mankind.

Under those circumstances, there is no doubt in my mind the increased job mobility occurring in our society, as well as distortions that are occurring within the sectors of our society, are impacting levels of unemployment very severely and escalating the rapidity with which people are forced to change jobs and occupations.

I merely need cite what were some interesting responses to the sudden reduction in the aerospace industry a few years ago that led to significant reductions in number of students applying for admission to colleges of engineering. There was a glut of engineers and in 2 years the whole process has been reversed again. I believe that universities need to do a great deal more to prepare themselves to recognize that a university as an education resource for society should no longer limit its teaching functions to on-campus youths between the ages of 18 to 24, but in fact should be prepared to provide meaningful education, whether for degree or a nondegree, formal or nonformal, to those members of society who need it throughout their full lifetime.

That is a very massive undertaking and I would say that for some institutions that attempt to prepare themselves for it, it is not a very inexpensive activity. It requires a great deal of preparation, it requires a great deal of investment in terms of experimentation, innovation and it also requires that universities begin to recognize—they and their faculties—that there is a prefectly valid and in fact much broader humane view of their role in society as an educational institution.

But there again, in response to what I think was Chairman O'Hara's question about declining enrollment, I have had some State legislators say that, "I believe that lifelong education is an offset for enrollment declines." But we have not had one yet so it is fortunate.

Even if there were not prospects of declines based upon projections of high school youths, I would still be completely convinced of the importance of lifelong education in the world we live in today and that is one definite area where universities need to be responsible.

I might conclude on this particular point I have found, Mr. Chairman, in going around in the State of Michigan, talking to various civic groups, citizens' groups, and social groups within the State, there is no question that the need is there, the concern is there. It applies whether you are dealing with a professional who may need updating in the medical field or a person who perhaps may not have had previous opportunities to go to an institution of higher education but who recognizes that the prospects of their continued employment may be declining, whether it is a woman who may have been out of school for 15 years and now wishes to reenter the job market or even whether it is just a person in midlife who wishes to broaden their perception of the world and become a better citizen thereby. Again, this is another element which I think is a very important one.

Mr. BENITEZ. Thank you.

Mr. O'HARA. Thank you, Mr. Benitez.

I am going to turn you over now to Mr. Dellenback, our ranking minority member, and I warn you in advance because he has the very able assistance of one of your graduates there, Dr. Andringa, and I notice him whispering.

Dr. WHARTON. I am sure he told him which questions to ask.

Mr. DELLENBACK. I must say Dr. Andringa has been doing his best to wipe out those blotches which developed from the fact I spent 3 years at Ann Arbor. He has been saying, "But you have to be open minded on this, you have to be open minded."

Dr. WHARTON. I should add, Mr. Dellenback, I have an honorary degree from the University of Michigan, if that is of any help.

Mr. DELLENBACK. Not only Dr. Andringa, but I have on my staff another man, Roger Williams, who recently came from your campus as a student working toward a graduate degree and the quality of what they bring would have long wiped out any reservation I had of your university.

I must confess I go back to the time when at Michigan we played Michigan State only to fill in the football schedule, but we do appreciate your being here and I apologize for being so late in getting here.

I have one more thing, somewhat facetious, before I get completely serious. I note on page 5, when you talk about explaining the national social benefit of various types of postgraduate education, lawyers are conspicuously absent. I don't take that personally in view of the fact I realize you have not yet acquired the law school for which you have been striving.

Dr. WHARTON. Absolutely.

Mr. DELLENBACK. But as soon as that is added to the university, you will put "lawyers" in this part of your presentation.

Dr. **Wharton.** Yes; if I could get the same kind of statement out of our Senate Appropriations Committee, I would be just as happy.

Mr. **Dellenback.** Insofar as Federal aid is concerned, on an institutional basis, Dr. Wharton, what kind of criteria would you think, assuming we were to go forward in this field, could best be used? That was one of the really tough battles, as Mr. O'Hara and Mr. Benitez and Mr. Biaggi all are aware, that we struggled with in the conference on the 1972 amendments. We were having not only the battle over whether we should but if we should, how do you best allocate—degrees, credit hours, nature of institutions, Federal program involvement, and just per capita, what do you do? Would you give us whatever further you might supplement your testimony with in written form on that?

Dr. **Wharton.** Yes; let me preface my remarks by pointing out that if at all possible on any forms of assistance, I am a believer in trying to maintain as simple a process as possible. I find that a highly mechanistic detailed approach frequently results in unintended side practices that might be even worse than what you begin with.

So I would prefer whatever machinery is involved to be as simple as possible.

In saying that, therefore, I think that I would be in favor, in following the Federal dollar amounts. There is a division of labor, if you will, philosophically or conceptually, between that which is viewed as being a State primary responsibility and a Federal primary responsibility.

If, in fact, the Federal Government has made the decision that a particular form of assistance, not institutional support but say student support, falls within its purview as being its responsibility, then, Mr. Dellenback, I would say there is a corresponding need to link that up with the institutional support because the rationale is the one which originally established the need for the Federal support in the first place.

If we believe it is in the national interest to provide a graduate fellowship for certain fields in the sciences, where there is a shortage of supply because it is in the national interest, not just in a State interest, then there is a Federal rationale for its intrusion into that process.

Then the institutional support should therefore be linked to that, because the rationale is the same. That is the rationale for having the institutional support as it relates to the Federal dollars.

Mr. **Dellenback.** It presupposes the Federal Government chooses wisely in setting up the first categorical programs, whatever they may be.

Dr. **Wharton.** That is correct and that the Federal Government felt it was its proper purview to, in fact, make that investment in the first place.

The Federal Government, for example, has viewed as one of its primary responsibilities, in recent years, the provision of assistance to equalize access to higher education. Those Federal dollars go to the institutions, public and private. Under those circumstances then the institutional support that would go along with that had the same rationale insofar as how do you link them up. That is why I thought the Federal dollars would be the best criteria and the simplest.

Mr. DELLENBACK. Would you follow all programs, would you follow BEOG and NDSL and veterans and social security and everything?

Dr. WHARTON. Yes; I would. I would follow all. I realize that the levels of funding that may be decided upon if and when the Federal Government does decide to provide institutional support would not, in fact, provide all or cover all of the institutional costs.

Even the formula that was in the amendments recognized a scaling effect in terms of size of institution. As I pointed out in calculating our maximum potential share, which turned out to be a little over 2 percent of our budget, the principle is there and the principle is important.

Rather than student credit hours, which gets into severe problems of definition of whether student credit hours at one institution are the same as another, and even sometimes the head count process gets you into a series of questions about part time/full time, it just simplifies it a great deal if it is just on a straight-dollar basis.

In fact, I would personally be in favor of linking it up with a certain degree of simplicity.

Mr. DELLENBACK. Let me go into this because it deals with institutional aid, let me ask you, you know this year we are hoping in the next year's budget to increase student assistance materially. We made one substantial increase in the last year and some of us have been strongly supportive of this.

I think putting more money in college work-study and BEOG's and such things are desirable uses of Federal dollars.

What would you say to me if we were to ask you, now, wait just a minute, before we increase the level of student assistance from last year, if we were to turn to you and say, "All right, we are going to have another $300 million this year to put into postsecondary education." Where should we use it, institutional aid or where?

Dr. WHARTON. I am not sure I could give you a satisfactory answer, Congressman Dellenback. I would say that going back to the remarks I made at the very beginning, one of the problems in dealing with institutional aid by itself is that you don't get a chance to talk about the package and what the balance represents.

I would say that at the present time at the undergraduate level we don't have any kind of institutional support, it is zero. You do have some of the graduate fellowships, graduate support. You do have support for graduate research funding but we are not getting any funding at the undergraduate level.

Now you are asking the other difficult question that you, as a representative, face regularly. How would you allocate the dollars between institutional support and student assistance.

For me to come out with a specific dollar amount would be difficult. I want to see how big the pie is. I have the same problem whenever we go through a budgeting process. But I do feel that the principle of institutional support has been established. I also feel there has not been as much recognition as there should be insofar as need of institutional support in today's setting.

Now whether or not, with the present tremendous escalation in the costs of education that are being borne by students, you shouldn't take the $300 million and put it all in student aid, is a very difficult question. I would want to see how much the balance looks like and where it goes.

I do know right now, however, that we just are not getting any institutional aid at the undergraduate level. I must stress at the undergraduate level is where the biggest impact is, that is because of the number of students receiving student aid.

Mr. DELLENBACK. I am not sure how I really interpret what you are saying because I feel that you are saying you would not put the full $300 million into student assistance, you would divert some to institutional aid.

Dr. WHARTON. I would divert some of it to institutional aid.

Mr. DELLENBACK. Let me give you a practical question right now.

Dr. WHARTON. Let me just stress, first, Congressman Dellenback, I think it is a mistake to view them as "either/or," because I pointed out in the testimony some institutional support, in fact, can result in our not having to increase student tuition.

So it is a question of alternative flows or complimentary flows. So that providing institutional support may, in fact, lead to institutions not raising the costs borne by the student directly.

Mr. DELLENBACK. We have this kind of a hard one right now, a practical one. The indications are that not the coming fiscal year because BEOG is advance-funded in the fiscal year, we are going into $475 million plus carryover, we have about $515 million perhaps, but to make the program really go to the fiscal year beyond that, fiscal 1976, we need, the best indication I can get, it is about $800 million.

Some indication is there that all the Appropriations Committee will really produce and we will have to see what happens finally, is $600 million, and that is going to cause some kind of confusion one way or another.

Either we stay with it 2 years or cut down the grants or split the eligibility or something of the like. We need another $100 or $150 million. If we can't divert it from other programs, this is money we ought to look very hard on whether we should go beyond the budget. Would you have a theory on whether to put that $150 million into BEOG's or keep BEOG's at $650 million and put the $150 million into institutional aid?

Dr. WHARTON. That is a hard one. I guess this would represent a reduction then in the level of BEOG's.

Mr. DELLENBACK. All I know is the first year we put $102.1 million into BEOG's and next year we appropriated $475, but will have a $4 million carryover so we took it from the first year to the first 2 years and the hope of some was the next year we could go to the first 3 years, so every student could continue to get aid and it will take more of a jump than $650 million will make possible to continue with the levels as we understand for the second year, so what do we do with that hard one?

You recognize in the administration of the universities you have the same problems and we see this as one of the really tough ones.

Dr. WHARTON. Except in this case I think you slightly loaded the dice in the sense you are dealing with a group of individuals who are already in the institutions, in effect, and you have a level of expressed commitment.

Mr. DELLENBACK. No commitment of a legal nature beyond the years.

Dr. Wharton. But you want to continue it on, but under those circumstances you would want to obviously meet that level of commitment to begin with.

Mr. Dellenback. Continue.

Dr. Wharton. I would say that one would have to meet the expressed commitment that you have, even if it is implied. But I do feel that unless some attempt is made to recognize the institutional support dimension, then I have a strong feeling that there will be an even greater extenuation of some of the problems that the previous witness described in terms of the public-private conflict. That is simply because my view of the institutional support area is one which is equally applicable or should be applied straight across the board between public and private.

They, perhaps even more than the public universities, are experiencing severe impact in their area. Now, if you link it solely with students, I am not certain that is going to offset the problem when all of the institutional needs are not met by student aid. So I would be in favor of maintaining the level in terms of the commitment, but also recognizing the need for increased recognition of the undergraduate, particularly the undergraduate students.

Mr. Dellenback. I thank you very much. I wish there were more time, there are so very many things we can profit from, but I recognize the time is short and I thank you very much.

Dr. O'Hara. Thank you, Mr. Dellenback. Thank you very much, Dr. Wharton. I look forward to talking to you in the future on this subject before the committee takes action.

Dr. Wharton. Thank you.

Mr. O'Hara. Now, our final witness today is Dr. Robert Leo who is special assistant to the chancellor of Dallas County Community College district. Dr. Leo, if you could please take your place at the witness table.

I might also mention Dr. Leo is also president of the National Council for Resource Development of the American Association of Community and Junior Colleges.

Dr. Leo, I am pleased to get the benefit of your testimony.

Dr. Leo. Because of the shortness of time, Mr. Chairman, I will not read this verbatim. I think members of the committee have copies of my prepared remarks.

Mr. O'Hara. Without objection, Dr. Leo, your statement in full will be entered in the record prior to your remarks.

[The statement follows:]

Prepared Statement of Dr. Robert J. Leo, Director, Special Services, Dallas County Community College District

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Leo, Director of Special Services for the Dallas County Community College District. I also serve as President for the National Council for Resource Development of the American Association of Community and Junior Colleges, a group of college administrators deeply concerned with program development and college viability. The Officers and 10 Regional Directors are here with me this morning. I would like to speak to you today in support of cost-of-education allowances to institutions, as authorized in Title IV, Subpart 5, of the Education Amendments of 1972.

These allowances would help give substance to the nation's commitment to educational access for all Americans, a commitment which is eloquently expressed in H.R. 69: "The Congress reaffirms as a matter of highest priority the Nation's goal of equal educational opportunity. The Congress hereby declares it to be the policy of the United States of America that every citizen is entitled to an education to meet his or her full potential without financial barriers and limited only by the desire to learn and ability to absorb such education. Our Nation's economic, political and social security demand no less."

We agree that the goal of equal educational access as stated above is a matter of the highest national priority. Title IV of the Higher Education Act is designed to help achieve this goal in the postsecondary realm. The cost of education allowances in Subpart 5 would contribute to this through strengthening the institutions which are counted on to provide educational opportunity to students provided access through the student aid provisions of Title IV.

In this statement I will try to show the need for this support in the community and junior colleges for which I speak today. At the present time there are close to 1200 of these institutions; they provide education for nearly 3 million students, which is about 30% of the nation's total in higher education. These colleges have a deep commitment to educational opportunity which is evidenced in many ways. For example, almost 40% of community college students come from families with incomes of under $10,000 per year; of non-white students attending college 33% attend two year colleges, as do 75% of Spanish-speaking students and about 25% of American Indians. As a result of inflation our number of middle income students is also rising rapidly. Statistics like these result from the fact that community colleges are low cost and geographically accessible to prospective students. Additionally, they provide a wide range of programs to meet the needs of students in the communities that they serve; they emphasize occupational as well as transfer programs, and programs for part time students. The average age of our students is beyond that of the immediate post high school years (it averages 24.6 years in California Community Colleges). Most community colleges have open admission programs, which means that their doors are open to all interested students, regardless of their academic backgrounds. It also means that the colleges must be ready to meet the needs of these students by providing expensive developmental programs to ensure real opportunity once the access is provided.

The cost of education allowances would flow to institutions as a complement to their federally-aided students. In many ways it is inappropriate to think of student aid funds as "income" to the institution. While student aid permits students to attend college it does little for the institution other than pay the student's tuition from federal rather than from other sources. In this sense the institutional student aid funds can be thought of as payment for "services rendered". The aid is available to the students, but the institution must seek out the students and provide them with information about financial aid and college opportunities, and of course it must provide an educational program. Thus it is logical that cost of education allowances are placed in Title IV, for these funds will help the institutions offer the necessary programs, educational approaches, and materials.

For what reasons are cost of education funds needed? I will try to outline a few points, without pretending that I have exhausted all possible arguments.

1. FEDERAL STUDENT AID, BY ITSELF, IS INADEQUATE

Federal student aid does not cover the needs even of all low-income students, not to mention the ineligible middle income students. An American Council on Education study of 1973 freshmen shows that 42% of those students with gross family incomes under $10,000 anticipated receiving *no* scholarships or grants. Like others, community colleges have to turn applicants away. For example, in the fall of 1973, the Los Angeles Community College District enrolled 108,395 students for the fall semester, in day and evening classes. Of these, 5,265 received a total of $1,976,888 in financial aid through the federal SEOG, NDSL, and CWS programs, about $376 per student. *However, during the same period more than 5,900 additional students applied for aid to the same programs were refused.* Their collective unmet financial need amounted to approximately $2.25 million if they had been funded at the same $376 per student.

For these same federal programs, the Community College of Denver with 7300 students awarded its 578 aided students an average of $454 in 1971-72. The college had to refuse aid to 263 students due to lack of funds.

These examples show that while Federal financial aid to students has increased it does not cover all eligible students. Hopefully, as the Basic Opportunity. Grants grow this gap will close, but the BOG's wil only cover half of a student's educational costs, at most. The remainder has come and will come from other sources: state, institutional, private or family.

To help fill the gap, some states have initiated programs to aid the student. Since 1971 the state of Texas has required community colleges to take 25¢ out of every tuition dollar and place it in a financial aid fund for low-income and/or disadvantaged students. Further, Texas has its own loan program. New Jersey's Educational Opportunity Fund and Colorado's State College Work Study Fund have aided students. Pennsylvania, Illinois, California and New York are other states with such programs. The guiding principle is need, as opposed to scholarship in determining eligibility. The State Scholarship Incentive program should stimulate further development here.

2. COST OF EDUCATION ALLOWANCES COULD HELP KEEP TUITION COSTS UNDER CONTROL

This is important not only for low-income students who receive federal aid, but for all students, and particularly for the large mass of students from moderate-income circumstances, who are not eligible for much student aid, but who find it very difficult to meet educational costs now. If these costs increase much beyond their current level, middle income students may be priced out of the postsecondary education market.

A recent report by the College Entrance Examination Board shows that the costs of higher education to students have been increasing markedly in recent years. CEEB reports that the average cost to communting students to a public two-year college for the 1974–75 school year will be *$1,922*, including $338 for transportation, $419 for personal expenses, $778 for living costs, and $287 for tuition and fees. The two-year public college sector has experienced greater increases than any other level of higher education. Although a two-year commuter college is still the nation's best educational bargain, the fact is that tuition and fees, out of necessity have increased 70.8% since 1970 while the total educational budget for commuting students at two-year colleges has increased 34.4% in the same period.

We feel that the cost of education allowances are very much needed to stop or at least retard this dangerous trend.

3. INFLATION STRAINS COLLEGE BUDGETS

Another point to bear in mind is that tuition and fees, which is the portion of federal student aid that the colleges receive, does not begin to impact on the colleges' operating budgets.

Even including recent increases in federal student aid the portion of federal support to community colleges has not increased. In fact, a 1973 study by Walter Garms shows that there has been a *decrease* in federal participation for community colleges since 1969.[1] In that year, 6.6% of college operating funds came from federal sources, while in 1971–72 this figure had decreased to 5.2%. Also, Garm's study indicated that in 1968–69 two-year institutions on the average received 14.2% of their income from tuition and fees. It is of interest that the Dallas County Community College District in 1973 received 14.1% of its income from tuition and fees.

We find the following patterns in community college financing for the year 1972. As indicated above, 5.2% of major sources of revenue came from the federal government, 44% from state sources, 33% from local sources, and tuition and fees 14.2%. California's community college are tuition-free. In that state, community college income sources are divided as follows: 58% from local tax funds, 33% from state funds, and *9% from federal and other sources.*

The Dallas County Community College District has the following sources of income: state, 50.1%; local taxes, 22.8%; tuition and fees, 14.1%; *federal and other, 5%,* and auxiliary enterprises, 9%. The cost of educating a student in Dallas has gone from $1213 in 1970–71 to an estimated $1400 in 1973–74. Tuition has not significantly increased in that time. It still costs a student $120 for one year to be enrolled full time.

As another example, in the St. Louis Junior College District the income is divided as follows: state, 28%, local taxes, 36%, tuition and fees, 25%; *federal, 5%;* and miscellaneous, 6%. There has been no tax increase since 1971 in the St. Louis District. State income to the District has not increased since 1970—the District still gets a yearly allocation of $400 per full-time equivalent student. Yet, in St. Louis, the cost of educating a student has risen from $1200 in 1970–71 to a projected $1434 for 1974–75, approximately a 19.5%

increase. While the cost has increased, tuition per credit hour has only risen from $13 to $15. If a student takes 15 hours of credit his tuition is $225. Thus, $984 must come from other sources.

Note that to date no matter how the funding source pie is sliced, the federal share remains constantly small. As these figures indicate, community college tuition rates have remained relatively stable as a portion of total college operating budgets, and the federal share has not increased. I have also given a couple of examples of the cost squeeze our colleges are experiencing, as the costs of educational services increases. Since our colleges have a firm desire to keep costs to students low this should not be considered a source of additional funds. In addition many have rigid state allocation formulas due to the demands on state resources. Finally, the local taxpayer, pressed by inflation himself, in some instances has refused to increase his share of the cost, and rightfully so.

Thus, inflation's devastating rage has had its effects on colleges, as it has had on other parts of the economy. Like business and industry, colleges have had to pass part of their increase in operating costs on to the consumer—the student. The City of Chicago has recently decided to charge tuition to community college students for the first time. (I understand Chancellor Oscar Shabat of Chicago will be here tomorrow to discuss this with you.) This leaves California and the Community Colleges of the City of New York as the only community college systems where no tuition is charged. These tuition increases have been made out of necessity. Where are the additional funds to come from?

4. TUITION INCREASE IS NOT THE ANSWER

The inflationary situation poses very difficult choices for college educators committed to equal educational opportunity. While it may be very "logical" to increase charges to the consumer and expect the students to pay more of the load, as some critics have suggested, this may get educational costs to the point where only the rich can avail themselves of this opportunity. The figures I have given you show that not even all those potentially eligible student aid in fact receive it, due to lack of funds. As for middle income students, their family budgets are really feeling the cost squeeze, and for them education may become an unattainable luxury, especially if low-cost educational opportunity gets more and more expensive.

The National Commission on the Financing of Postsecondary Education estimates that for every $100 increase in tuition, 3% of potential postsecondary students opt out, being unable to afford the marginal increase.

Conversely, a Wisconsin study (I believe AASCU put it in your record) tested reactions at two Wisconsin state colleges, and showed that each $100 *decrease* in tuition can bring an *increase* of between 4.8% and 12.2% in enrollment. A large number of the additional students said that they could not have attended college at all except for the combination of low tuition and geographic access.

I want to make one very positive assertion, one which is contrary to an opinion strongly held by some analysis of higher education finance, including the present Administration. This is: I do not believe that a policy which almost forces postsecondary education students to borrow heavily for their education is a wise policy. It is not wise in general; a student can emerge from four years of education so heavily in debt that he is practically mortgaged for life. And if he marries a girl similarly burdened, the couple's situation could be difficult to tragic. It is too much to expect young people to start out in life chained to loan repayments. For the students served by community colleges this is especially true. These students come from lower income brackets with the several combined disadvantaged of doubtful future income expectations, lack of confidence in the self, lack of sophistication in financial matters and uncertainty as to future career goals or indeed their future in college. For these students, loans do not equal educational opportunity, they represent unequal and financial burdens.

5. COST SQUEEZE RISKS PROGRAM QUALITY

If there is a theoretical or actual limit beyond which student costs should not rise, and if state, local, and federal sources of support do not increase, but costs to institutions continue to rise, something's got to give.

Unfortunately, this something is likely to have come from program quality. One of the most vulnerable areas is students services, and ironically, the full implementation of the Basic Opportunity Grants program will require more of these services.

There is a myth that has been perpetuated that views such programs as tutoring, peer counseling, developmental studies, reading and writing laboratories as "extra" services. For the comprehensive community college these services are an integral part of its instructional program. In order to ensure that the "open" door does not become a "revolving" door, such services are essential.

Since 1966 Dallas enrollment has increased from 4,047 to 22,609. This year 5,100 of our students are in developmental studies programs. These require smaller classes, and often more expensive instructional equipment using modern (and costly) instructional devices. Whereas our general academic program has a student-faculty ratio of 27–1, and some large lecture courses may have 40 students with one professor, our developmental classes are limited to 15 students with one faculty member, a peer counselor, special laboratories, instructional materials, etc.

Other areas of program quality may have to give as well. Community and Junior colleges lay strong stress on occupational programs which train students for the job market and for further education, if, as, and when it becomes relevant to the students/graduates. Occupational programs are much more costly to operate than are general academic programs. This is especially true in the capital equipment required for such courses. A college must fund not only the initial outlay for such equipment, but face the problem of obsolescence and replacement of outdated equipment. Strained to the hilt, the college may have to make do with inadequate equipment and resultant lower quality training. (The funding of Title X, both Parts A and B, would assist in this problem area).

RECOMMENDATIONS

The proposed cost-of-education provision is one that will reward those institutions that serve individuals in need of financial aid. It is the market approach—you get it if you earn it. That is, the cost of education funds will go to colleges that service federally aided students and in so doing, give their support to the federal priority of equal access to postsecondary education.

Since 1958, Congress has mandated through the Office of Education under the National Defense Education Act, the Atomic Energy Commission, the National Aeronautics and Space Administration, the National Institutes of Health, and the National Science Foundation, to name some of the major programs, have given institutions a cost of education allotment to defray the institution's costs under federal fellowship programs. This approach recognizes that educating an individual costs more than the tuition or the amount that student stipends allow.

We are recommending a change in the legislation to alter the means of calculating the cost of education allowances. Instead of the current complex formula, which will confuse even the most sophisticated computer, we would suggest a revision which would place a simple "add-on" to federal financial aid programs. The add-on would be in the form of a percentage of total student aid, including BOGs, SEOG, NDSL, and the College Work Study, received by students attending an institution, say 20%. Under this format, if an institution's students received a total of $1 million in federal aid, the institution would receive $200,000 to help with the expenses of educating these students.

This is not a new approach, nor is it a departure from past national practices. We strongly urge the cost of education for these student financial aid programs follow the practice approved by Congress for so many years for a large number of other student aid programs.

CONCLUSIONS

The membership of the National Council for Resource Development has as its focus providing information for all community and junior colleges on means of garnering educational resources in order to carry out the mission of these colleges. It is their view, as it is the view of the American Association of Community and Junior Colleges, that financing education is a *joint venture*, which involves maximizing resources from all areas of support—community, governmental, and institutional in order to insure that the student has the opportunity to achieve his educational goals.

I began this statement with a quotation from Congress, and I will conclude it with another, this one going back to 1965. The original purpose of the Higher Education Act, enacted in that year, was to "strengthen the educational resources of our colleges and universities and provide financial assistance for students in postsecondary education." It is noteworthy that in the beginning, the strength of the colleges and universities held equal billing with the provision of financial assistance to students. In this, Congress showed the great insight that strong institutions are needed if strong and effective education is to be provided. We feel that the federal share has not kept pace with its stated commitment, but that it has been left to other resources to take up the slack. The cost of education allowances we advocate today would bring the federal government strongly and firmly into the nation's joint educational venture.

Dr. LEO. I am accompanied today by the officers and regional directors representing a cross section of institutions throughout the United States, of the National Council for Resource Development. The regional directors and myself are here for an annual board meeting, and we look forward to sharing some of our ideas, at least from the 2-year perspective in terms of how we feel when we take a look at title 4, subpart 5, and on other matters that impinge upon what we are about to discuss in our deliberations.

It seems to me that the historical perspective in terms of Congress' commitment, which was reaffirmed in H.R. 69, indicates that we are still and continue to be concerned with equal educational opportunity. In fact, most recently we talked about equal educational access, as one of the prior witnesses indicated, that this has becomes the highest national priority.

Title IV of the Higher Education Act is designed to help achieve this goal in the postsecondary realm. The cost of education allowance in subpart 5 would contribute to this through strengthening institutions which are counted on to provide educational opportunity to students who are provided the access through student aid provisions.

In this statement, I will probably be referring to a number of other programs that are related to the cost of education allowances.

But first, let's take a look at our own community colleges. The 1,200 institutions that are currently across the United States have nearly 3 million students. The students are part time, they are full time; they represent a cross section of people at various income levels and various ethnic origins, and a variety of people with different attitudes and ideas and a very, very strong involvement in their own community.

The age, surprisingly enough, each time we mention it, is not necessarily the 18-year-old. In many of our institutions, the average age is 24, 25, or 26. Many of our institutions have a healthy part-time enrollment, depending on how we want to define it. These individuals come to us, or we go out and seek them regardless of where they are in order that they may fulfill their own educational goals.

In many ways, it is inappropriate for us to begin to look at student aid as income for the institutions. While student aid permits students to attend college, there is little for the institutions other than to pay the students the tuition from Federal rather than other sources.

In this sense, institutional student aid funds can be considered as payment for services rendered; services rendered not to us and not to the Federal Government but to the student.

The aid is available to students, but the institution must seek out students to provide them with information about financial aid and college opportunities. You may recall the other parts of title IV deal specifically with that particular problem. The outreach function is important to us. It will continue to be a basic part of our program. We do not wait for students to come to us. We go out and find them.

Let me take a few minutes of your time to look at why we think the cost-of-education funds are needed. I will try to outline a few points without pretending I have exhausted all possible arguments.

First, Federal student aid by itself is inadequate. It does not cover the basic needs of all low-income students, not to mention the ineligible middle-income students who are constantly caught in this vise.

An American Council on Education study of 1973 freshmen indicated that 42 percent of those students with gross family income under $10,000 anticipated receiving no scholarships or grants. Further, like others, community colleges have to turn applicants away.

For example, in the fall of 1973, the Los Angeles Community College, one of the largest districts in the Nation, enrolled 108,395 students for the fall semester in day and evening classes. Of these, approximately 5,200 received a total of the $0.9 million in financial aid through the basic Federal program. That is about $376 per student.

However, during that same period, more than 5,900 additional students, who were qualified and applied for aid in these same programs, had to be turned away. Their collective unmet financial need amounted to approximately $2.25 million if we assumed they would be funded at the $376 level.

This is not atypical. In Denver, the Community College of Denver with approximately 7,300 students awarded its 578 students an average sum of $454 in 1971–72. They turned away 263 students because of the lack of funds.

Mount Hood Community College in Oregon could not serve more than 800 students who qualified for their federally financed aid program.

These examples show that the federally financed aid to students has increased; or although it has increased, it does not cover all of the eligible costs. So to help fill the gap, some States have initiated their own programs of aid to students.

Since 1971, my home State of Texas has required community colleges to ake 25 cents out o fevery tuition dollar and place it in a financial aid fund for low-income or disadvantaged students.

Further, Texas has its own loan program. New Jersey's Educational Opportunity Fund and Colorado States' work-study program; Pennsylvania, Illinois, California, and New York, and the list continues to grow. The guiding principle is need as opposed to scholarship in determining eligibility. The State scholarship incentive program passed by Congress with regulations which were released approximately 30 days ago, we hope will stimulate further development in this area.

Our second reason for supporting "cost of education allowance" is that it will help to keep tuition costs under control. This is important not only for the low-income family but also the middle-income family and particularly the large mass of students who find themselves wanting to return to school, wanting to come back to school, yet who are not eligible for student financial aid.

I might disgress and indicate that on the books we have aid to half-time students which has never been funded.

We find it difficult in the increase of costs not to justify an increase in tuition. However, if these costs continue to increase much beyond their current level, I think all of our students will be priced out of the postsecondary education market. A recent report by the College Entrance Examination Board shows that the cost of higher education to students has been increasing markedly in recent years.CEEB reports that the average cost of commuting students—approximately 80 or 90 percent of our institutions are commuter students—for 1974–75 is projected to be $1,922. This includes $338 for transportation $519 for personal expense, $778 for living costs, $287 for tuition and fees.

The 2-year public college sector has experienced a greater increase than any other level in higher education. Although the 2-year community college is still the Nation's best educational bargain, the fact is that tuition, out of necessity, has increased 70.8 percent since 1970, while the total educational budget for commuting students at 2-year colleges has increased 34.4 percent in the same period.

We feel that the cost of educational allowances are needed to sfop or at least retard this trend.

Thirdly, we are facing in community colleges, as with most institutions, whether they be social service agencies or business or industry, an inflationary crunch.

Tuition and fees, which is a portion of Federal student aid that the colleges receive, does not begin to impact the colleges' operating budget, even including recent increases in student financial aid; the portion of Federal support to community colleges has not increased.

In fact, in 1973 in a study I laid out in my prepared testimony, Federal aid has decreased rather than increased in the last 3 years. It is significant to note that in 1968–69, 2-year institutions received 14.2 percent of their income from tuition and fees.

It is of interest to note that my own district, Dallas County Community College district, in 1973 received 14.1 percent of its income from tuition and fees. In an effort to keep tuition costs down, we have had to rely more heavily on other resources.

The following patterns in the testimony lay out some very interesting things to me. One of the prior witnesses indicated support for the Carnegie Commission report, that tuition should achieve the one-third balance or one-third of the cost.

In our district, it is 10 percent or less. We hope that we will be able to maintain that 10 percent or less In other districts, we find similar situations. In St. Louis districts, for example, tuition and fees account for 25 percent of its budget.

But in St. Louis there has been no tax increase since 1971. Yet, in St. Louis, the cost of educating a student has risen from $1,200 in 1970–71 to a projected $1,434 for 1974–75. That is a 19.5-percent increase.

Burlington County Community College, next year, is projecting a $1,638 cost of educating a student with a tuition of $350 or approximately 20 percent of the actual cost.

Note that to date no matter how the funding source pie is sliced, the Federal share remains constantly small. Inflation for us has forced us into a posture of having to decide whether or not, like business and industry, we have to pass part of our increase in operating costs onto the consumer, the student.

The city of Chicago recently decided to charge tuition to community college students for the first time. Chancellor Shabat of Chicago will be here tomorrow to discuss this with you. This leaves California and the community colleges of the city of New York as the only community college systems where no tuition is charged. These charges have been made out of necessity.

We ask the question: Where do the additional funds come from and where are they to come from? We don't think that the tuition increase is the answer. The inflationary situation has caused us to reassess where we are in terms of providing low-income families with low tuition, low cost, and any other adjective you would want to put there to see if there were some ways that we can provide and continue to provide quality education without a tuition increase.

Some critics have suggested that if the increase charges are passed on to the consumer and we expect the students to pay more, this may simply get educational costs to the point where only the rich can avail themselves of the opportunity.

Earlier, I indicated that not even all of those potentially eligible for student aid in fact receive it due to the lack of funds. I would be remiss if I didn't mention the middle income as being one. With the middle-income students, the family budgets are feeling the cost squeeze problem as great as anyone else. For them, education may become an unattainable luxury, especially if low-cost educational opportunity gets more and more expensive.

The National Commission on the Financing of Postsecondary Education estimates that for every $100 increase in tuition, 3 percent of potential postsecondary students opt out, being unable to afford the marginal increase.

Conversely, a Wisconsin study—I believe AASCU put it in your record—tested reactions at two Wisconsin State colleges, and showed that each $100 decrease in tuition can bring an increase of between 4.8 percent and 12.2 percent in enrollment.

Lowering the tuition becomes a very, very attractive thing for individuals who cannot afford to pay the high tuition.

I want to make an assertion, one which may be contrary to an opinion held by some analysts of higher education finance, including the present administration. I personally do not believe that a policy which almost forces postsecondary education to borrow heavily for their education is a wise policy. It should be an alternative, but should not be the only program by which middle-income persons, for example, are eligible for this.

It gets even more tragic if we force a low-income person into the loan situation. For most students, loans do not equal educational opportunity or they represent an unequal financial burden.

Finally, the cost squeeze certainly risks the program quality. If there is a theoretical or actual limit beyond which student costs should not rise, and if State, local, and Federal sources of support do not increase, but costs to institutions continue to rise, something has to give.

There is a myth that has been perpetuated that views such programs as tutoring, peer counseling, developmental studies, reading and writing laboratories as "extra" services. For the comprehensive community college, these services are an integral part of its instructional program. In order to insure that the "open" door does not become a "revolving" door, such services are essential.

I would be remiss if I did not mention that the success of the first VCOL (veterans cost of instruction) program is beginning to unfold, and I understand Congress is currently considering this. We support continuation of this program. We would support the changes that were outlined in testimony yesterday. We feel that we are beginning to reap the benefits of a cost-of-education allowance program that helps us to provide better service to veterans. We think that the extra service, so to speak, that people keep talking about which are basic to our institution certainly can be expanded and aided in this way.

Other areas of program quality may have to give as well in addition to the extra service. Community and junior colleges strongly stress on occupational programs which train students for the job market and for further education, if, as, and when it becomes relevant to the students/graduates. Occupational programs are much more costly to operate than are general academic programs. This is especially true in the capital equipment required for such courses. A college must fund not only the initial outlay for such equipment, but face the problem of obsolescence and replacement of outdated equipment. Strained to the hilt, the college may have to make do with inadequate equipment and resultant lower quality training. The funding of title X, both parts A and B, would assist in this problem area.

If I may talk about the recommendations of the National Council for Resource Development, the American Association of Community and Junior Colleges put before this committee: the proposed cost of education provision is one that will reward those institutions that serve individuals in need of financial aid. It is the market approach. You get it if you earn it. To put it another way, it is a cost reimbursement approach. You get the students, you get paid for it, that is, the cost of education funds will go to colleges that service federally aided students and in so doing give their support to the Federal requirement of equal access to postsecondary education.

Since 1958, Congress has mandated through the Office of Education under NDEA, the Atomic Energy Commission, National Aeronautics and Space Administration, NIH and the National Science Foundation, some of the major programs that have given institutions the cost of education allowance to defray institutional costs under Federal scholarship programs similar to the prior witness discussion that this has been practiced prior to this; therefore, this approach does recognize that educating an individual costs more than tuition or the amount that student stipends allow.

We are recommending a change in title IV, subpart 5. Instead of the current complex formula which will confuse even the most sophisticated computer, we would suggest a revision that would place a simple add-on to Federal-financed aid programs.

The add-on would be in the form of a percentage of total student-financed aid including BEOG's, SEOG's, NDSL's, and college work study programs received by students attending an institution. Let us say 20 percent. If the 20 percent was decided upon under this format, if an institution's students received a total of $1 million in financed aid, the institution would receive $200,000 to help with expense of educating the students.

This is not a new approach nor is it a departure from past national practices. We are strongly urging that the cost of education for these students' financial aid programs follow the practice approved by Congress for so many years and for a large number of other student aid programs.

We are recommending that we begin here, in terms of providing the cost of education allowance and we hope eventually that we might begin to talk about total enrollment, per capitation or other forms. But this is a beginning.

The membership of the National Council for Resource Development has as its focus providing information for all community and junior colleges on means of garnering educational resources in order to carry out the mission of these colleges. It is their view, as it is the view of the American Association of Community and Junior Colleges, that financing education is a joint venture, which involves maximizing resources from all areas of support—community, governmental, and institutional, in order to insure that the student has the opportunity to achieve his educational goals.

I begin this statement with a quotation from Congress and the act that was passed, H.R. 69, and I will conclude it with another, this one going back to 1965. The original purpose of the Higher Education Act, enacted in that year, was to "strengthen the educational resources of our colleges and universities and provide financial assistance for students in postsecondary education."

It is noteworthy that in the beginning the strength of the colleges and universities held equal billing with the provision of financial assistance to students. In this, Congress showed the great insight that strong institutions are needed if strong and effective education are to be provided.

We feel that the Federal share has not kept pace with its stated commitment, but that it has been left to other resources to take up the slack. The cost of education allowances we advocate today would bring the Federal Government strongly and firmly into the Nation's joint educational venture.

I might add that if you take a look at the recent studies that have come forth, States have increased their commitment or at least maintained their level over the past decades. Our concern is that we move quickly in increasing the Federal share of this commitment to provide access and opportunity.

Mr. O'Hara. Thank you very much.

Mr. Benitez, any questions?

Mr. Benitez. I agree fully with the Doctor's position and I think he made an excellent statement. I have no questions.

Mr. O'Hara. Thank you. Mr. Dellenback.

Mr. Dellenback. On page 5 of what is a very well-prepared statement, Dr. Leo, you talk in terms of not believing that a posture which almost forces postsecondary education students to borrow to further their education is a wise posture.

I would agree with the idea that really gets some consistent wording because an individual or pair of individuals that marry end up with tremendous loans, so they are in trouble.

I am not sure I read you as suggesting that we therefore do away with Federal loan programs?

Dr. Leo. No: I indicated this would be an alternative. It should be simply an alternative. It should not be the only avenue available for middle-income students.

Mr. Dellenback. Isn't that already the case?

Dr. Leo. No.

Mr. Dellenback. If we start from the premise, whether we like it or not, that they are in, as well as one of the institutions, where there are only so many Federal dollars and we have to balance them off, and if we are going to use such dollars in one place, then they are not available for use in other places, subject to certain fluctuations; but flexibilities are not enough.

Now, would you suggest that we take the present loan programs and use the dollars that are in those loan programs for either cost of education allowance or for increased student aid?

Dr. Leo. I would move toward the increase in student aid, personally.

Mr. Dellenback. Away from the loan?

Dr. Leo. Yes. In college work study programs, BEOG and SEOG.

Mr. Dellenback. Now in another portion of your testimony, when you talk about the formula you would propose, calculating cost of educational allowance as a simple add-on, you talk then in terms of BEOG, NDSL, and college work study.

Dr. Leo. Right.

Mr. Dellenback. Would you include veterans' allowances or would you include social security payments for education in that calculation?

Dr. Leo. I think as a beginning we should stick to the basic Federal programs for education specifically that are outlined in the legislation.

I think, as you know, we have approximately what now, 14 other kinds of assistance programs, the Law Enforcement Administration through Health, Social Rehab Service, the whole number.

Mr. Dellenback. As a matter of fact, we found when the National Commission was studying this we had almost 400 Federal programs of one sort or another in the field of postsecondary education, but I turn to these two in particular because anybody who looked at the relative dollar weights is aware of the immense amount of money that comes to the veterans' aid and social security aid and these are really surprisingly large amounts.

But you would suggest staying with these programs?

Dr. Leo. Yes; as long as the VCOI legislation remains in force.

Mr. Dellenback. You know, I have great respect for and am a great backer of community and junior colleges. I think what is involved in these institutions is one of the major hopes for tomorrow.

We appreciate your testimony and appreciate your being here and sorry it has to be so short. Thank you, Mr. Chairman.

Mr. O'Hara. Thank you, Mr. Dellenback. Dr. Leo, those bells of course are summoning us to the House Chamber and I am looking forward to having an opportunity to ask you a few questions in formulating this later on, so I will not direct questions to you now, but I do appreciate your testimony and the input you have made to the committee.

The committee will meet again tomorrow morning at 10 o'clock in this room. We are going to hear tomorrow from a panel of outstanding educators and economists on the critical topic of low tuition and tuition levels and their effect upon attendance and upon facilities of the three income groups, so we are going to have a panel discussion. I think you will find that very interesting.

Thank you very much. The subcommittee will now stand in adjournment until tomorrow morning.

[Whereupon at 12:30 p.m., the subcommittee adjourned, to reconvene the following day, Wednesday, June 19, 1974, at 10 a.m.]

STUDENT FINANCIAL ASSISTANCE
(Institutional Aid)

WEDNESDAY, JUNE 19, 1974

House of Representatives,
Special Subcommittee On Education,
Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:50 a.m., pursuant to notice, in room 2261, Rayburn House Office Building, Hon. James O'Hara presiding.

Present: Representatives O'Hara, Dellenback, and Lehman.

Staff present: Jim Harrison, staff director, and Elnora Teets, clerk.

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Today the hearings will constitute a panel discussion on the very important issue of tuition levels as they affect and relate to student financial assistance. I propose that we take the prepared statements from three distinguished institutional heads, President Paul Bragdon of Reed College, Portland, Oreg.; President Willard Boyd, University of Iowa; and Chancellor Oscar Shabat of the City College of Chicago.

When these gentlemen have presented their statements, the Chair will ask for comments by two outstanding students of the economics of postsecondary education, Drs. Carol Van Alstyne of the American Council on Education and Robert Hartman of the Brookings Institution. Then we will turn to questions by members of the subcommittee.

President Bragdon, let us hear from you first.

STATEMENT OF PAUL E. BRAGDON, PRESIDENT, REED COLLEGE

Mr. Bragdon. Mr. Chairman, I am president of Reed College, a small nonsectarian, independent liberal arts college located in Portland, Oreg. I am also the elected chairman of the Oregon Independent Colleges Association, made up of 16 independent colleges and universities of varying sizes, some sectarian, some nonsectarian, with different missions and serving different constituencies.

The views expressed this morning are my own, however, and not necessarily those of the sponsors.

It may not seem that way at first glance, but colleges and universities, and the men and women who work there, have much in common these days with the Congress, and the men and women who work here. And I don't mean that a lot of talk is associated with both places and both sets of people.

Both institutions and the people associated with them are subject to severe criticism from within and without, and both have suffered a loss in public confidence, so the polls and our sensitive ears tell us.

Personally, I am against unreasonable expectations of our institutions, and in favor of accountability and recognition that institutions peopled by human beings are indeed fallible. Skepticism, however, should not keep the public—or ourselves—from recognizing other basic facts. For instance, consider a partial list of the matters that are or will be before the Congress in one form or another, and which will be high on the agenda for the Nation in the years ahead:

What do we do about the international monetary system? International trade? The developing nations? The growing gap between the have's and the have-not's?

What do we do about inflation?

How do we reconcile energy and ecology? Poverty and the need for productivity with preservation of the environment?

What do we do about proliferation of nuclear weapons?

What do we do when the work force has great expectations, but the number of persons with special training exceeds the number of meaningful jobs?

And so on and so on. I conclude that there are no easy answers to these problems and all of the others left unmentioned. Doctrine, dogma, fashionable ideas of the moment, fitful media attention, good intentions by themselves—none will serve us well enough. The fact is that our best hope lies with highly educated men and women—men and women whose soft hearts are accompanied by tough minds.

And our colleges and universities are our best resource for providing these men and women. We should appreciate the fact that we have an unmatched system of higher education.

As President Martin Meyerson of the University of Pennsylvania put it:

> The student who wishes to deal with emerging problems, not only of natural sciences, but also of social and psychological behavior, of linguistics, of medicine, of econometrics, of the cultures of the developing countries, and of subjects such as the visual arts, can find more stimulus in the American college or university than anywhere else in the world.

While creating this matchless system, we as a society have acted to provide places to met the demands of population growth and to widen the access routes to educational opportunity. No society on earth, now or in the past, has attempted to provide the places at the postsecondary level for so large a part of the population and to open so wide the doors to educational opportunity.

With the task of providing new places accomplished, higher education is evolving into a system of postsecondary education, including a range of programs and experiences utilizing the resources of public and independent institutions of higher education, programs of varying lengths and purposes associated with these institutions and programs available through proprietary schools, industrial training centers, and other educational facilities.

The prospect is for even more options and alternatives for men and women at different stages of life. The years ahead, whatever they may have in store for institutions pressed by high costs, limited resources, and competition for students, are likely to be golden ones for students of all ages.

So we have diversity, quality, and widening access. An expanding number of options and alternatives. A prime resource for producing men and women equipped to sustain society and to attack its problems.

I would think the case for higher education, or postsecondary education, and for supporting it, is proved. I would like today, then, to discuss three other issues: First, do we wish to maintain our diverse, pluralistic system of higher education with a healthy, viable, independent, or private sector?

Second, are we continuing to accept as a basic objective that each citizen should be able to choose the educational experience appropriate to him or her regardless of where the person comes from in American society?

And third, assuming the answer to the first two questions is yes, what are the implications for public policy?

Let me say straight away that all of the rhetoric and most of the pieties are strongly and warmly supportive of diversity, pluralism, and a strong private sector. It would be the rare dissenter who would say bluntly that no, indeed, he wants 1 system or 50 systems, 1 bureaucracy or 50 bureauracies, 1 monolith, 1 funding source, or 50 sources.

And yet events and public policy belie the warm rhetoric and solemn pieties, and begin to bring about, probably more by accident than design, the world cherished by our nameless dissenter; the plain fact is that unless a conscious decision is made to preserve and nurture the independent sector, it will be phased out—and the only survivors ultimately will be Harvard and other institutions with endowments approximating that university's $1.25 billion.

Most would subscribe, also, to the view that a student should have a maximum freedom of choice among the institutions appropriate for him or her. In fact, freedom of choice becomes more and more circumscribed. Reed College, with an unusually small endowment, both comparatively and for the quality of the educational program it offers, and consequently with limited financial aid funds, now has numerous applicants who wish to come to the college but go elsewhere. I don't know how many are discouraged from applying in the first instance.

Many enrolled students doing well academically depart reluctantly—or face the prospect of paying off very substantial loans over a long period of their working lives. Judging by the alumni body, Reed has done particularly well by highly motivated, upwardly mobile young men and women, many from middle-class homes in Portland and Seattle and the small towns of the Pacific Northwest. As president of the college, I am deeply disturbed at the increasing difficulty we have in bringing similar students, and those from even less advantaged homes, to Reed today.

Incidentally, we have been so concerned about this situation that we have set up a special, but necessarily limited, scholarship program, funded by the Charles E. Merrill Trust, directed at this audience. The result, which is that our applications have increased sharply, confirms the attractiveness of the college and tends to show that Reed and her sister colleges would do well in a reasonably competitive academic structure.

The single most important factor working against continuation of our dual system in higher education and circumscribing freedom of choice is, of course, the cost structure in higher education. As you well know, costs in both sectors of higher education have risen at a rate greater than the inflationary rate.

In part, the added costs reflect new commitments, new programs, particularly in the public sector. In part, they represent expenses imposed by public policy: for example, increased social security taxes. Most significantly the cost increases parallel those in other labor intensive areas of our society; for example, the performing arts, municipal government, health care.

Thus far there has been no new technology comparable to that employed in manufacturing enterprises to increase productivity, thereby reducing the effect of increased costs.

Faced with these increases the States have boosted appropriations to the public institutions, thereby holding down the price to the student through taxpayer tuition subsidies. The laudable effect of this policy has been to assure students of at least one type of postsecondary education.

Meanwhile, the independent institutions, faced with analogous cost increases, have been forced to increase the price paid by the student or the parents. The unfortunate effect of this mandatory policy has been to increase the gap between the charges of the public institutions and the independent institutions; that gap was, on the average, $500 in 1957, which was a competitive difference. This year it is $1,800 on the average and no end is in sight.

As Dr. Allan M. Cartter has pointed out, it is not at all unusual for a State enterprise to exist side-by-side and compete with private enterprise. The French automobile industry, as Dr. Cartter noted, has this characteristic. No one has suggested, however, that the Renault be given away free or sold at a substantial discount through taxpayer subsidies while the Peugeot is sold at full price. If such a policy were in effect, how many people would elect to purchase the Peugeot?

If the gap in prices—not costs—is too great, how many would elect the Peugeot even among those who believe the automobile has distinctive features which make it preferable or which meet the individual's particular needs? I don't wish to press the commercial analogy too far. The public and private sectors in higher education are both nonprofit and are partners in public service.

The point is that the dual price structure in higher education does not reflect the cost differential fully and currently works to the great detriment of the independent colleges—and to the detriment of the preservation of our dual system and freedom of choice for students.

If the rhetoric in praise of diversity, pluralism, and viable private sector is to be carried into practice, if the objective of freedom of choice for the student is actually to be pursued, the growing gap between what it costs to attend a public institution and what it costs to attend a private college or university has to be narrowed. And I did say "narrowed," not "eliminated."

The independent institutions should continue to rely on philanthropy as a significant source of support—and hope that the Congress in moving on tax reform does not eliminate legitimate incentives for giving, along with abuses and loopholes. We at Reed College have redoubled our fundraising efforts, and the results indicate a healthy interest in supporting the institution.

In recommending means to narrow the tuition gap, I am mindful of the longstanding practice and tradition that basic responsibility for education rests with the States, and the usual Federal policy of not distinguishing between public and private institutions in support programs.

Personally, I tend to favor State programs of support which accompany the student. Thus, I would prefer more generous need-related State scholarship programs, with the possibility of adding cost-of-education allowances to them to sustain the institutions serving the students.

Other possibilities are the New York program of institutional support on a formula basis now accompanied by a generous need-based scholarship program, or the contract services approach in effect in Oregon and elsewhere.

The Federal Government could contribute significantly to the development of State scholarship programs by increasing substantially both the authorization and appropriation for the State student incentive grant program, thereby encouraging States without such programs to embark on them, and States with them to enrich them.

Under the existing pattern of Federal legislation, I believe recognition should be given to the impact of the provisions of the Higher Education Act of 1972 which substantially expanded the number of institutions eligible under the various student aid programs.

The extension of eligibility should be accompanied by an increase in appropriations for things like the SOG and the work-study program.

Finally, should the Congress see fit to continue the BOG program, the program should be thoroughly examined and probably amended to include middle-class families; the income ceiling and limits on grants should, in my opinion, be revised. Under the current BOG program, the appropriations should be increased to permit grants at the statutory maximum.

I appreciate the opportunity to sharing my thoughts with you. Of necessity, I have spoken from the perspective of the private college. In doing so, I would not want it thought that I am unaware of the service of other sectors, or of the significance of their programs.

Further and finally, I would see no service to the public interest, which is the concern of all of us gathered here, in gaining benefits for the private sector at the expense of our partners in postsecondary education.

Mr. O'Hara. Thank you very much.

Our next witness who will deliver a statement on the subject of tuition levels in higher education will be Willard L. Boyd, president, University of Iowa.

STATEMENT OF WILLARD L. BOYD, PRESIDENT, UNIVERSITY OF IOWA

Mr. Boyd. Mr. Chairman and members of the committee, I am Willard Boyd, president of the University of Iowa. I am also serving as president of the Iowa Association of Public and Private Colleges and Universities, which includes the community colleges of Iowa.

I do not speak for them, but I would want to say parenthetically that there is concern among all of these sectors in education in Iowa that the Federal Government is and should continue to be a partner in the support of education.

We are also generally agreed that there should be diverse forms of student aid and not concentrated simply on one form. Moreover, we are also agreed on the importance of institutional aide for all sectors of education in Iowa.

With respect to the University of Iowa itself, we have had, as a continuing goal, the development and maintenance of education programs of high quality and the assurance of access to those programs appropriate to each student's needs, capability, and motivation through a policy of low tuition and adequate financial aid, to the extent that we are forgoing salary increases in some years to achieve this.

In recent decades, the Federal Government has become a major partner in the pursuit of these goals, through its programs of institutional and student support.

Institutional support has been provided or authorized in a variety of forms—capitation and formula grants, training grants, construction grants, and cost-of-education allowances related to the number of federally assisted students.

The diversity of support, particularly if it is supplemented by general institutional aid related to total enrollment, will provide both the stability essential for effective planning and the flexibility necessary for the development of new programs in response to new needs. And as importantly, the continuation of existing programs of merit. Institutional aid is essential so that there can be institutions for students to attend.

The students seeking their education at our institutions also deserve a system of financial support that is equally stable and flexible. These students come from a variety of circumstances and have differing needs.

The present system of Federal support which provides aid through work-study, basic educational opportunity grants, supplemental educational opportunity grants, direct loans, guaranteed loans, fellowships, and traineeships does allow a flexible response to these needs.

Excessive reliance on one source of aid, such as basic educational opportunity grants or guaranteed loans, or indeed reduced participation of experienced campus-based financial aid officers in determination of need, simply increases the probability that students will be denied access to educational programs best suited to them.

The continuation and improvement of the existing Federal system of balanced support for institutions and students is in the best interest of our institution, the students we represent, and the Nation as a whole. Thank you.

Mr. O'HARA. Finally, a statement from Dr. Oscar Shabat, chancellor of the City College of Chicago.

STATEMENT OF DR. OSCAR SHABAT, CHANCELLOR, CITY COLLEGE OF CHICAGO

Dr. SHABAT. Thank you very much, Mr. Chairman. I am sorry I don't have a written statement, but I have some notes that I have written down. I want to say that I am speaking on behalf of myself, not my institution, certainly not the board of trustees. I think they know my view, but they have not decided yet whether or not they are going to support it.

I am also speaking for community colleges, public, and for the one in the city of Chicago. Perhaps I am talking pretty much for the other large or big cities, community college systems, such as in Los Angeles and New York.

But I am not too sure because I am not familiar and intimately aware of all the details as I am about Chicago.

I say this because much of the literature that I have read and many of the studies that have been made, it is amazing how the people who do the studies have not the first idea about the actual social worlds they purport to understand and report about.

That, of course, is one of the shortcomings, I believe, in social and psychological research today in general. Too remote, the researchers do not immerse themselves into the very social worlds that they would like to understand, of course, even seeing these worlds from the point of view of people living in them and to act in them. That, of course, is on another level.

Therefore, I want to state offhand that I am unalterably opposed to tuition for students to attend the community colleges. There is a principle and a philosophy behind my position. I don't want to deal really with technicalities because most of the studies really are on the level of technicalities.

We have "experts" who have given a lot of facts. Most of these aren't developed, in my view, because they do not really come to grips with the premise, and you have to dig out very carefully and worry about what the premises are, such as in a premise concerning "how we look at society."

"Will these premises stand up under rigorous inspection and analysis of that society looked at empirically rather than from an armchair?"

Now, the principle that is behind my position, I think, was best expressed in James Conant's preface for the Carnegie Commission report, an early one, the "Open Door College." He states:

> The extension of the years of free education through establishment of local two-year colleges has been the expression of a new social policy of the nation or perhaps I should say a further thrust of our old policy, for one could simplify the history of American public education in the last 100 years by noting the steps in the movement to make universal the opportunities hitherto open only to the well-to-do. First came the provision of elementary schooling at public expense. Then came the free high schools and efforts to provied instruction for a wide variety of talent, the widely comprehensive four-year high school.
>
> Lastly, the growth of the equally comprehensive public two-year college, parenthetically I now call them the community colleges, the open door college, as it has been sometimes called.

Those who argue in favor of no tuition, as I do, base their cases on the belief that higher education is of benefit to society. That is why these public institutions of higher education were created in the first place, not for the benefit of the individuals, which is a fact, but I do not think that it is relevant.

It is as a byproduct, but today it has become the basis of a new philosophy, and one thinks of the consumer as being benefited as an individual, and therefore let him and his family pay.

The premise I am talking about is that society is the beneficiary and society therefore should bear the burden of costs. If the individual reaps any benefits, that is all right as far as I am concerned. I would not deprive him of so doing.

Those, of course, as I said, who are in favor of higher tuition would believe that the benefits accrue primarily to the individual and therefore the costs to some extent should be borne by him.

Now I read, in preparation for this meeting, this excellent little pamphlet by Howard Bowen. I thought he was going to be on the panel today, and I wanted to meet him. This is a beautiful little thing, good summary and good perspective of history and identification of issues; and his own views, which interested me most, because, you see, he revealed his premise and his value system, and we are not without values. That is the most important thing.

We are not just a bunch of technicians running around as they ran around in Nazi Germany. It took a lot of lives.

This is an excellent report. And we know that these six reports refer to pretty much agreement that there should be tuition, perhaps low tuition. They vary from "How long we should go to a higher tuition and at what level?" "Should we make differences among the various levels in higher education?"

The Frank Newman report did not concern so much the tuition thing—which he didn't come to grips with—so much as portability about which we heard in an earlier statement from our distinguished president of one college.

I happen to differ with these six reports, although they are different among themselves. Let me tell you why I differ. I could tell you very briefly about the community colleges in Chicago.

They enroll 80,000 students. That is in 8 college campuses, 10 urban progress centers, 7 evening high school buildings, 250 outposts, factories, settlement houses, libraries, churches, stores; 47,000 of the 80,000 are enrolled full time or part time in college level courses, many of them included in some 212 occupational programs.

The remaining 30,000 and some are enrolled in basic education, literacy, if you please, English as a second language in many cases, "GED" courses, and other college preparatory general study courses.

They are adults. They are in our colleges, but they are not necessarily at the college level. About 8 of every 10 of our students work either part time or full time. The average age is about 22½, and in California it is about 24½, and many more students are in their junior colleges than ours.

Forty-two percent of our students are black. That single fact should tell you an awful lot. Forty-one percent of all of our students come from families earning less than $6,000 a year. Twenty-five percent between $6,000 and $9,000; 19 percent between $9,000 and $12,000. And we have 14 percent who come from families earning more than $12,000 a year.

These few facts and characteristics about our community colleges tell the story about why tuition is absolutely out of place in our type of institution, which may most aptly be described, if there is any college that could be described this way, as the people's college. We box the compass more than any other institution of higher learning.

We have great respect and admiration for those that have a fewer missions than have been thrust upon us in law—very complex, very difficult to handle—a new kind of society in the making; and in this big city of ours, we have to be responsive to those adults and they may come to us for even literacy and many of them do because we have "MDTA" programs and they cannot learn even the entry level skills without learning to read and write and understand the language and follow directions.

We do not feel we are demeaned because we are dealing with adults at that level. We call ourselves a college. I don't care what you want to call us. We are dealing with these adults in terms of their educational needs.

Now, for 63 years since 1911 we have had a policy of no tuition for our city students. As I mentioned earlier, there is still no tuition in New York and in California. For the first time in our history, our board of trustees has found it essential to impose tuition for this fall, $4 a semester hour. Let's say 15 hours is $60 a term, plus some other minor fees, very minor. That is to start this fall. That is where we are.

Now, most of the 48 community colleges in the State of Illinois, I must confess, have tuition charges. They average about $9 a semester hour. We are one of the last. We are in the big city. We are a very different kind of creature than all of the others, many of them rural. I know the rural areas have their poor, too, but it is quite different than Chicago.

It should be noted that most of the community colleges in our State are relatively new, having been established since 1965 with the passage of our Public Community College Act at that time. I mention this fact because it is also true that there has been great pressure from the rest of the State to get Chicago to adopt a tuition. Many of the legislators from down State are very happy about this change.

Oh, yes, we have heard "Tuition is good for all, try it, you'll like it." Actually, I see this as a barrier that symbolizes a syndrome that is growing in this country and represents a basic departure from our traditional policy concerning free access.

Free, we also hear "If it is free, it can't be worth much. They don't appreciate it unless they pay for it." or "If they worked harder they would get where I am and then money would be no problem." and a lot of other trite remarks.

Now I wanted to end by saying this kind of thing. We have a State scholarship commission. It has $65 million, and it is going to have $74 million if certain bills get passed and I think they will. Some 70,000 students in higher education receive grants and scholarships and most of them are monetary grants based on need. Very few of our students ever asked for this and the reason is of course there was no need for it. It is just without any tuition. They do it without tuition. If they were to do it as asked for now, there is a six page form and I should have brought it, but I didn't want to hurt you in any way.

It is the most complex thing you ever saw, three pages of family income and three pages of family assets. I believe I am a rather sophisticated person and they told me as students when they protested at the announcement of this new tuition. "Have you looked at it lately? Have you filled it out?"

The last time I filled it out for my son, he won an honorary one. I didn't remember how difficult it was, but I filled it out over the weekend in response to demands by students. If you know anything about the thing, I will tell you need a Philadelphia lawyer. It is no wonder that so many of our students are resisting.

They are going to become discouraged, because they are disenchanted and many of them who we try to reach out to help are not going to be coming to us. Of course, it will be disastrous financially to us, but that is a small consequence except that we are not going to be able to fulfill our mission. That is the important thing. If they don't come to us we don't get the $4 and if they don't come we don't get the State aid on the formula basis and it gets to be like a vicious cycle and then because of our union contract where there is a limit on class size, and classload, "If you want more students, sir, you have to have more teachers."

Therefore, if you are going to have less money, you are going to have fewer teachers. You do away with teachers because you have not got the money for them, and then you will be able to serve fewer students which means less money and fewer students. I don't know where it ends.

Theoretically we are out of business. It will probably go to some place like that and we will not be able to carry out our mission.

Yes, Illinois is very unusual and offers more to even the middle class. There are students whose families can earn above $20,000 and indeed do and get up to $1,300 for tuition and fees. Half of these 70,000 come from families earning over $10,000. That is a little above low income and I would say that 90 percent of our students, if they were to go to the form, would be able to get their $60 a term. There is no question about it.

But the point is that this is an invasion of their privacy. What it does to the independent student, is a separate and growing problem. I think there will be court cases and I hope they will remain as a class action. I don't know how the few Supreme Court decisions will affect it, but these policies could be struck down once and for all, because while the students have to supply the income tax returns along with filling out the form, many of them are taken as dependents even though they are independent and they have to have been away from home for this year and the past year. In some States I understand they couldn't have even been in the home physically for 2 weeks and certify to that effect.

There are a lot of such ridiculous things. But all of these things will tend to tell our student, "Stay away." These very people need education as much as those going for Ph. D.'s, for the M.A. and for the M.D. and other degrees. This is the pitch that I am making, namely, that tuition is a barrier.

The State, the city—of course as a community college we tax people in our city—and the Federal Government should give us money so we don't have to charge tuition. That is my last point.

Here is what I mean. Our students costs on the average, are $2,064 a year. I am not for foregone income, about which one can make a big case.

Well, we have all kinds of aids. We have the tuition remission in the case of Illinois State scholarships and that is all that is now and from the Federal Government we heard about the CWS, BEOG, and loans. I won't say much about loans because that I don't even talk about. I am against those, period. The Government, one of these days, will learn it is going to cost you more to get back that dough than it was ever worth to begin with. That is something else again and you will have to go to economists to get the answer there.

But even the BEOG, I think it should be looked into. I have a feeling that the way in which it is done is also, whether unintentional, but I suspect somewhat intentional, a way of keeping many of the poor people from getting it. I looked at the form. Much of it could be misleading. It takes a great deal of sophistication to fill out those little squares and I think the machine, wherever it is, in Iowa, or wherever, could chew up many of our people and make them look like they are rich, but they are poor as church mice. What we have to do is to have financial aid like New York City, for example, where they give a student up to $2,100, apart from financial aid coming from the Federal Government.

That is for those who are in the college opportunity centers. That is over and above the one counselor for every 50 students, and we have one for every 500, and the tutoring and other supportive services.

You want to reach the people that we deal with in the city of Chicago in community colleges, namely, the people, the big masses of people. If you want to box that compass of population, if you want to get after senior citizens and the handicapped, you are going to have to give money so that we are kept alive and build new buildings so that we can keep from having to impose the tuition; that is the point I started with and that is the point I want to make.

Mr. O'Hara. Thank you very much, Dr. Shabat.

I think perhaps next it would be appropriate if we called upon our two commentators. First, Dr. Robert Hartman, an economist at Brookings Institution, and then after Dr. Hartman has commented, Dr. Carol Van Alstyne can comment.

STATEMENT OF DR. ROBERT W. HARTMAN, SENIOR FELLOW, BROOKINGS INSTITUTION

Mr. Hartman. Thank you. I am Robert Hartman of the Brookings Institution. I am speaking for myself entirely today. I have no prepared remarks.

I listened to the three presidents make their presentation and I hope it was not expected that my role would be to integrate their remarks.

Mr. O'Hara. No, no. Just to comment.

Mr. Hartman. I would find it difficult to do. So, instead, I would like to make some general propositions that I think should command fairly wide support and hope that we could, in the discussion, get into whatever the disagreements are on these issues.

I find it very hard to talk about tuition levels as such in any meaningful way when there is student aid to be had, because what seems to me to be relevant, at least to students who do the buying in higher education and make decisions, is the net price that they have to pay for going to college and (excluding the matter of living costs) that net price consists of tuition, minus whatever aid they are getting.

So that most of the propositions that I would have to make in the area of pricing of college service has to do with the net price, that is, tuition after aid is received. I would like to suggest two propositions about the net price of college that I think ought to command broad assent on this panel and the committee.

They are the following: First of all, that the net price to low-income students, and I will hedge on what I mean by "low income," but the relatively lower income students, ought to be low enough so that a substantial proportion of them are encouraged to attend postsecondary institutions, that is, a larger proportion than in the past or a proportion approaching that or equal to that of students from higher income families. That is the first proposition.

The second proposition, which I think is not so obvious and most people have not thought about it, is that once a student is deciding between different colleges, that the net price to him, whether he is an aided student or not, in looking at different colleges, ought, in some way, to reflect the cost difference among those schools. That is, a student who is choosing to go to a low cost, and by "cost" I mean real cost, not tuition, a low-cost junior college versus going to a high-cost small private institution, should be made to pay more for that higher cost institution.

The reason for taking this position that net price ought to reflect cost difference is that I think that higher education administrators and planners in the future are going to need information from the market, if you like, about what student preferences really are in choosing among institutions.

At present, it is impossible to get information from the market because students base their choice on prices that often have nothing to do with costs and therefore to observe, for example, long lines forming for certain schools and empty seats in other schools does not really mean anything from an economic or even social point of view, because students are not choosing on the basis of real cost differences.

Let me contrast that to what the situation would be if students were choosing among schools where prices to them were based on cost differences. One could then infer from an excess of seats that in fact those schools ought to be contracted in size, that a student has found that at the going price for the institution with the empty seats it is not worth it to him to attend such an institution.

Another institution which has many more applicants and many more students trying to get in than there are spaces available, that institution, in such a market setup, it would be proper to infer that such an institution should be expanded.

Now, in future years; we are going to have to make very hard decisions about which institutions to expand and more importantly, and unlike the past, which institutions to contract and close. Right now, the only basis for doing that is either political accommodations or more likely I think, since people want to have some apparently objective way of making such decisions, will be to look at cost data from schools and decide, on behalf of the State, for example, if it is a public system, that certain schools ought to be cut back or even closed because they are of "high cost."

I think that would be a disaster. It would result in a selective reduction in the higher quality parts of the public sector. It will tend to homogenize the public sector. In most States the public sector is all you have and you will end up with a very mediocre public system of higher education.

I think the only way in the long run that the quality part of the public sector, which I am associating with high costs now, although I know that is not entirely true, the only way for it to survive, is for it to prove that students are willing to pay a higher price to go to the high quality sector. I believe that if State planners see that students are willing to pay an extra price themselves for such high quality education, State planners will have every reason to continue to fund and continue to operate the high quality part of the public sector.

So this is a convoluted way of saying that I think there is some reason to want to have price differences among institutions of higher education that reflect costs to a greater extent than today and that means both between the public and private sector and within the public sector.

The proposition which I originally stated first is that low-income students should pay a low-net price. Now, there are high cost public budget and low cost public budget ways to get at all of these problems and I don't think it is unusual that today's panel expressed most of the high public budget ways of going about reaching these goals.

I think many of the people really share these goals although they didn't state it in so many words. We can keep costs low to relatively low-income students by charging zero tuition to them. We could do it by charging zero tuition to everybody and by having relatively small grant programs.

An alternative way of keeping the prices low for low-income students is to charge a moderate tuition and have a large grant program which is targeted on such students. Both techniques get you a low net price for low income students.

The difference is the low tuition across the board approach costs the taxpayer a lot more money, because you are supporting low tuition for everyone, whereas the grant, or the large grant higher tuition mode would restrict the grants presumably to a limited segment of the population and therefore would be more efficient.

The way to go about getting price differences among schools reflecting costs also could be done in low budget and high budget ways. A low budget way is the favorite of many of my economist colleagues, which is simply to have full cost pricing at all institutions of higher education and let students finance it through loans. That essentially takes a college off of the public budget and would result in relative price differences that reflected costs. But, in my opinion, it also throws the baby out with the bath water in that it does not do anything about the other goal, of raising enrollments of the disadvantaged, but that is certainly a way to bring about these relative price differences.

Another way, which fortunately no one has suggested although I think we are getting close to it, to get to the net price differences reflecting costs would be to insist on zero tuition at all institutions of higher education including the most costly one such as Reed College. We could charge zero tuition at all schools and yet have net prices to the student reflect cost differences. The way we would do it is to have zero tuition at Reed and give a student no aid in going to Reed and pay him to go to low cost schools of higher education.

If we did that, there would be a real difference in price for going to a low cost school, for which he gets paid by the Government or going to Reed for which he does not get paid by the Government. That would be a way of bringing about net price difference with an extremely high public budget.

Most people don't take either of these extremes, but when I hear people talking about the public-private gap and saying, "The way to solve it is not to tax the students who go to public education with higher tuition, but rather to lower tuition at private institutions by having the Government pay the private institutions to lower their prices." That is a movement in the direction of the last plan I just described. That is an ultimate end result of such a plan, and I am not suggesting that anybody really favors that, that is, to ultimately have the Government fully subsidize all institutions of higher education so they don't have to charge anything to students. I have my doubts as to whether State and Federal legislatures are really willing to go to that extreme.

The other way, of course, to narrow that gap between public and private institutions would be to have a relative increase in the pricing of tuition levels in public institutions and that is something I favored before and since I am already running on too long, I don't want to go into it in detail.

Now, all I would like to suggest at this point is that if we could understand what it is we are trying to get at when we talk about tuitions and relative prices of different institutions, we could, I think, then at least get to the point where we could lay out the real alternatives that reasonable people might advocate and look at the budgetary and other educational and social differences among such plans.

But I find it hard, if we focus solely on particular prices without talking about how they are integrated with student aid to get anywhere in trying to advance to some kind of consensus.

Thank you, Mr. Chairman.

Mr. O'HARA. Thank you very much, Dr. Hartman.

Next, also speaking only on her own behalf, Dr. Carol Van Alstyne, who is Chief Economist of the American Council of Education.

STATEMENT OF DR. CAROL VAN ALSTYNE, CHIEF ECONOMIST, AMERICAN COUNCIL ON EDUCATION

Dr. VAN ALSTYNE. Thank you very much for the opportunity to visit you on this issue.

As I sat trying to assimilate the weight of the arguments on prices on educational services, I decided I would try to make four points.

The first one is, I think, that the tuition issue relates—well, we are confusing two very, very important matters that I think could be quite separately treated. On the one hand, well, we have tuition as a price for educational service.

Now, that price helps us allocate resources among budget priorities. To help us make very large decisions, say decisions as to amount of national activity in education, housing, defense, for instance. It also helps us make small decisions, a marginal decision as to how we allocate resources within education, within the public sector, the private sector, and within the public sector across different levels.

It seems to me that when we look at tuition as a single price and do not separate these issues, that perhaps we get into some very serious and unnecessary debates. Let me give you an example. Suppose on the basis of our value preference, and we have all decided that values and preferences are terribly important in how we decide to use our resources, suppose that we were interested in increasing support for higher education and suppose we had a choice at the national level, say between education, housing and defense, and we decided that we would rationalize price within the educational sector.

But now we are faced with support of housing where we have very considerable subsidy, enormous subsidies for housing, most of which go to middle income families on the basis of a subsidy to the price in terms of a deduction to interest. We also have gross inequities in the housing assistance programs in that most of those who are eligible do not receive low-income housing assistance.

Now, OK, that is the housing situation. Take defense, for instance, where we could observe they have a national defense budget and we could say that maybe less than a 2-percent decrease in that defense budget would yield a 100-percent increase in support for higher education.

Now, suppose we want to go back and decide that we want relatively to increase our resources, or to change our priorities, invest more in higher education. Now, it seems to me that when we debate the rationalization of the price of education within education, we don't deal with this other issue as to how we want to allocate our natural resources.

I want to split those issues and then say that all of the debate relating to rationalization of price to more effectively compete, to more effectively derive information for planning purposes on the optional size of the educational sector, could all be accomplished with prices which reflect relative costs. So what I am saying is that we could achieve all of those objectives, as has been explained by Mr. Hartman, with costs which bear a relationship one to the other which has a relative relationship. Now I am making the point clear.

It is not that the absolute price has to do with comparing education, housing and defense, and I want to switch that and say that we could achieve efficiency within education in terms of relative price, so that does not bear on the issue of tuition as such. It does not argue for a high or low tuition.

The second point that I would like to make is that I think we have gotten ourselves in the debate on how to to support education assistance.

Maybe I should say that I did spend a number of years in housing assistance programs and found very instructive analogies because we have 30 or 40 years of experience there, some of which I think is relevant in the educational assistance area.

I think we have gotten ourselves into a semantic box and we are battling over words which are arbitrary and not necessarily meaningful and the battle over words I think has to do with student aid versus institutional aid. We began to look at the real incidence of support and I think it is more effective to think of it in terms of a cycle of support for higher education and that there are various channels.

But, essentially, institutional aid, or aid which is traditionally labeled institutional aid, but which is used to reduce tuitions, can as effectively be indirect or direct student assistance as student assistance which is channeled back to the institution in the form of tuition.

So that, if you put it together, and show it as a cycle, what we are really talking about is support for higher education and the particular channels have to do with rather than inducing responsiveness of how we believe best we could induce students to enroll and induce institutions to be responsive to students' and society's needs.

So I think we need to get beyond the debate of student aid versus institutional aid and take a much more precise look at exactly what objectives are to be achieved, exactly the channels which are used to achieve those objectives.

I think also we need to be much more precise about the nature of the support as to whether it is to achieve educational objectives or to achieve social objectives and I do think we need to distinguish between that assistance which is channeled into higher education to make up for income disparities resulting from inequities in the rest of the system. And it seems to me we are labeling educational support a great deal of aid which is really to remedy income inequities in another part of the system.

I think those will be the fundamentals of the statement I would like to offer.

Mr. O'HARA. Thank you.

Mr. BOYD. Might I make a comment?

Mr. O'HARA. Yes.

Mr. BOYD. I think we have to go back; and I grant you that I speak now from the midst of the fray and not from the theoretical standpoint. I think basically what Dr. Shabat has said is that the objective is to motivate people in terms of self-fulfillment; that is the basic underlying purpose of education among other important institutions in this country. There is a great public value as well as personal value to education.

As I listened to the economists speak, I wondered how what they said will be explained to the student, because, for example, when we talk about meeting with the student to explain, or out in the public forum to discuss tuition and tuition levels and motivation and so forth, this kind of argument may not necessarily come across. They may not necessarily understand that. It is not unlike the problem in Vietnam. It is a very complicated situation and the complexity of the argument loses commitment in the process.

So I am not sure that the students will fully understand this. Given higher tuition, I am sure that regardless of the student's level of income, it is going to be a deterrent in obtaining education. This is not just limited to the very low income class, but it also affects the middle class and that goes further along. They are not clear about what the future is. They want to be encouraged or they need to be encouraged and not deterred from coming.

I am also troubled by the notion that there are different missions and, therefore, there should be different prices. This suggests that a low or no-tuition institution should have low or no quality. I don't think that is correct. I think that the students should be able to select among these different institutional missions rather competitively, so that the tuition is not geared to the mission of the institution, in particular. That is why I also argued against high tuition in middle education, although I grant you that is one area with a lot of controversy. But we tried not to deter people who have not had professional backgrounds from going into this profession by holding the tuition relatively low.

I also want to comment about the University of Wisconsin's experiment which did indicate if you do reduce the tuition you do increase the number of students coming to the institution.

Mr. O'HARA. Well, that is something that I want to talk about.

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I want first to advise all of the panel members that you have just witnessed here a near miracle; that we have been going now for an hour and no Member of Congress has opened his mouth.

Now, unless you expect an internal explosion or three of them up here, you are going to have to let the Members get in their two-bits worth very shortly here. So I think we are going to have to start coming back and forth with questions and answers.

And, exercising the prerogatives of the chairmanship, I am going to get in mine first in case the bells ring and we have to go.

A very good question that the Wisconsin study does not answer is, Who comes? At the point that your tuitions are dropped, a bunch of extra people come. But who are they? That is a very good question and I would like to get at that when we get a chance. For that matter, what do or who do you reach with economic incentives and what are your goals?

You know, Mr. Hartman had a model and others of you similar models and you can pretty well establish with your model that the way to get more low-income people into postsecondary education, or that the most efficient way of getting them in is not to reduce tuitions for instance but to reduce costs just for them, which of course involves the filling out of the forms that Dr. Shabat says most of us or the students are not going to fill out.

Indeed, Mrs. McCauley, who is associated with the California Junior College, the financial aid officer, ran a little survey, just sort of a sidewalk interview type of thing. I suppose it was not scientific but I thought it was a pretty good job.

In connection with the BOG programs, she went to two junior colleges in California that served a large number of low-income students and they made sure that every single entering student who would be eligible in terms of their first entry in the institution of higher education after a certain date, that every single one of them was personally given a BOG application.

If they already applied by the time the BOG applications became available, every single one of them who had been admitted was mailed the BOG application.

Then, of those who had not yet been admitted when the BOG application became available, every single one of these was personally handed a BOG application and very few of them ever filled them out. Very few of those that were determined later on to have been actually eligible ever filled them out. They are going to schools and something brought them there and it was sure not the BOG that brought them there.

Now, maybe in the model you could say, "This is the way the rational, or the way we set up our rational consumer and our rational consumer is going to do this way and that way." But maybe in fact he is not going to do them in those ways.

Did you have something?

Dr. VAN ALSTYNE. To respond, when the time comes to respond to some of the questions you raised, Mr. Chairman; yes.

Dr. SHABAT. I would like to make a comment. I don't know if it bears on quite what you say, Mr. Chairman, but on some of these remarks, going back to our situation where we now have to have our many thousands of students that go for the State scholarship forms, and it could be the Federal form, you know, for work-study, it does not make a difference—well, it does—why don't we have a simple form for everybody? This nonsense of forms galore is not just right.

Mr. O'Hara. I will answer that, Dr. Shabat. Because, for many people, the ultimate crime of a government program is to "give someone something for nothing" and you have to have a long form to make sure that this person who is getting an education and benefiting society is not "getting something for nothing", you know.

You know, you want to make sure, by George, if he has a capability of paying, make him pay. You have run into those fellows in your State legislature. You know that. They want to see to it that everyone of them pays and dearly, you know. That is why you need the long form.

You could have a form where you just filled out your name and address, if we were not so concerned that somebody might get some money, or might get something for nothing who was not one of the deserving poor.

Mr Dellenback. Will you yield?

Mr. O'Hara. Yes.

Mr. Dellenback. That is something less than encyclopedic catholic coverage of the entire set of reasons.

Dr. Shabat. In our State, notice what we are having to do, and it could be the Federal Government forcing us to do it, too, but I hope whatever is done you will not get into this kind of quagmire. The point is this, we are having our student go through a very laborious mechanism, the processing, for example. We're overwhelming the State scholarship commission; they didn't believe us, we are going to really try to get students to fill these things out because we have to. They are about 2 months behind. You could ask about the kind of adults we deal with in community colleges. They just don't plan for 2 years in advance. You catch them when the place is ready to open.

What it amounts to is they are playing games. The game is this: We need $2 million, and we could prove that. We are going to have to get it by using the student as a conduit into the cash reserve, where there are millions of dollars with a hierarchy, a bureaucracy that is not manned too well. And processing these requests costs a lot of money.

It costs $6, you know, to process just one of these forms. Why we invent these things, I suppose it is because every organization tends not only to fight to survive, but to grow and this, of course, sometimes means, "empire building." I don't appreciate that, though, on the receiving side, although I am told that I am a big empire builder, too, so I have to be very careful of that.

Mr. O'Hara. Dr. Van Alstyne.

Dr. Van Alstyne. You raised the question on the Wisconsin experiment about "who comes?" The people who designed and reported the study did try to estimate who comes and may I report the results of a preliminary document that was forwarded to us?

Let me give the example of one. You know the experiment is the reduction in tuition of a community college to be equivalent to a very low-cost vocational center in one urban and one rural area in Wisconsin. In the case where they had a 47-percent increase in enrollment, which was considerably higher than the 11-person system enrollment for the institution, the increase was distributed 6 percent continuing students, three reentry students, 5-percent transfer students, and 32-percent new students.

Well, the students were surveyed and indicated that tuition and location of the institution were significant elements in their decision. Now, one would have to be very careful about extrapolating the results of a single isolated situation to a system, but it does lend some credence to the suspicion that the estimates of student response to tuition, as reported in recent commission reports, is possibly underestimated seriously.

Mr. O'Hara. Well, I think that is so, but, you see, one of the reasons I raised that question of "who comes?" it gets back to my tirade against "why you have to have the long form."

Dr. Hartman spoke in terms of equalizing the collegegoing rate as between income groups. But the big objective was not to concern ourselves with increasing the rate of collegegoing among middle-income groups, but rather to concern ourselves with the collegegoing among the lowest income groups, to bring them up to the point of other income groups.

Well, I think that whole notion has so many assumptions in it that I am not sure are valid. It assumes, first off, that we are perfectly satisfied with the collegegoing rate generally, that the percentage who go on to postsecondary education among all but the lowest income groups is satisfactory, that we have no desire to increase the percentage going on among other income groups, or no interest in doing it as a matter of public policy.

Now, the second assumption is that it is the money that makes the difference. But I am also not very sure about that. For instance, I would be willing to wager that, in my congressional district, among schoolteachers, making in the neighborhood of $10,000 or $12,000 a year, the college-going rate among their children is much higher than it is among autoworkers making the same $10,000 to $12,000.

So, I am not sure it is the money, the family income, that is the reason why there is this disparity or the principal reason for the disparity between groups.

I am also concerned with a system that provides the greatest good for the greatest number, you know. In other words, maybe the most efficient way of getting low-income groups in terms of a theoretical model, may be to put it all in need-based student assistance.

So, maybe there are more efficient ways of maximizing the total number of who are going on to postsecondary education, much more efficient ways and maybe that would involve more across-the-board assistance in reducing college-going costs.

I would like to get Mr. Hartman's comments on that.

Mr. Hartman. Well, if I could comment on some other things also?

Mr. O'Hara. Yes.

Mr. Hartman. This last question about "Whether money is the real determinant of college-going rates." I don't think there is any question that it is not the only determinant, and I am not sure that it is the major one. But the importance of finances is not essential for the argument that differential student aid go more to low income students than to others.

The fact is that there is a larger proportion of nonattendants in low income groups, not only of auto workers, but of people with extremely unskilled backgrounds, in some cases where the parent is not even in any occupational class but is living on welfare.

Certainly, no one would deny that there is a correlation between low income and a lot of other social factors that would tend to discourage college going. People who fall under $6,000 income, for example, are almost exclusively not people from professional backgrounds, not people from intact homes, not people whose parents have had a lot of education, and it really is following up your notion of it being unlikely that such families will be encouraging going to college, that we use the only public policy measure that is easily available to us, namely, to make it cost less to try to lure such students in, in effect, taking the place of what normally would be nurtured in the home.

That is less essential when you start talking about the $15,000 and $20,000 income families, because those families are much more likely to have the kind of background or to live in the neighborhood where their neighbors have the background that would tend to encourage people to go to college.

Money is not everything, counseling and good secondary schools and all of that would do a lot to help kids in poor neighborhoods to go on to college, but in Federal programs these are very hard to get at.

Let me make two small points. I have spoken up for student aid here. It is easy to create an idealized system of student aid, but people point out that when you look at the forms they are mighty complicated and many students can't fill them out.

I would be the last to defend complexity here and I actually do favor an extremely simple form even if that will allow some people who do not deserve it to get the money. If simplicity could be achieved, I would be willing to let a few people get away with ripping off the Federal Government.

I know that is a hard point of view to get across in the Congress, but I think that there is a great deal of sense to eliminating a lot of the stuff about assets, for example, on the BOG forms, just on the grounds that it discourages people from filling it out and also encourages cheating.

One more short comment. Someone asked, "How could you explain to students the imposition of tuition and make them understand it," and I am not sure this is the most politically savvy way to do it, but I would present them with the proposition: "Education is a good thing and lack of education is something to be avoided, but starvation is even worse." And yet the Federal Government in the case of food programs and starvation, goes about it by letting farmers get paid for their food, but it gives poor people pieces of paper called "food stamps" that allow them to acquire the food at less than full price and if they are very poor they get a certain amount of food free, but everybody else pays for food and no one has yet proposed that the way to get around the problems of starvation is to make food free for everyone.

Therefore, it could be argued that maybe we ought to move in that direction in higher education, to try somewhat more tuition but to take care of those, who would be "starved" otherwise, by subsidizing their costs for purchasing this education, and this would move higher education more in line with other programs for which the Federal Government provides differential assistance and aid, because it thinks that the good has some special social merit.

So I don't think we are creating something new in higher education when we talk about charging prices closer to costs and giving grants, but actually talking about moving it in the direction of other programs for which the Federal Government provides subsidies.

Mr. O'Hara. Completely different, of course, in the sense that I think it is safe to assume that almost everyone is eating though some are eating less well than others. That is not the case in postsecondary education.

It is not so that everybody is getting postsecondary education, but some are getting less than others. If it were, your system would make more sense than it does in the actuality, because we are talking about financial inducement to go on and I think we have to make some decisions about just what good the financial inducements do and who they do good for.

I think the lowest income groups, you say there is a correlation between low income and college attendance. Well, there is a correlation between low income and sickle cell anemia, but I would not have voted for the sickle cell anemia program as I did if it had proposed to go ahead and provide special care for only low-income people. Maybe there is something else in there that we ought to be looking at.

I think that we fail to sort some of these things out and when you talk about the 15,000, the 20,000, whether the incentive to go is greater, maybe in those groups it is the money that is keeping them from going, you see. They have already gotten their incentive to go.

Maybe in fact there is the income group where the money crunch is causing the greatest cutback in college attendance. I do not know. Probably not the greatest, maybe you could make a good case, if you find schoolteachers whose children are not going on to college, maybe you could say, "Well, there is a case where it is the money. It must be the money because you have both parents are teachers and they have an incentive to go."

I don't know. It is a very complicated question, and then of course, the whole question of "What is our objective, to increase participation in postsecondary education generally on the part of all income groups" or "Are we unconcerned about income groups above a certain level, whether or not they participate more fully."

Don't worry about the quorum call. I just agreed to expose myself to a poor attendance record in order to continue this session. The others will return.

Dr. Van Alstyne. The National Commission had prepared information showing the education participation rates by income levels for a period of several years over the late sixties to the present time. Those data indicate that education participation rates for all income groups have gone down, that they peaked in 1969, and the income groups which had the largest relative decrease is the middle-income groups.

Now, reasons have been offered for this including changing employment opportunities for college graduates, changes in draft laws, changes in availability of aid, and not a great deal has been done to ascertain the impact of increasing costs on those lowered education participation rates.

We tried the other day to come up with a crude first approximation of what these costs were, because we do not have any good indexes, either of student costs or of institutional costs. But we used some college board survey data on expenditure patterns and we used historical data provided by the Bureau of Labor Statistics to devise a first approximation of a cost index for students going to college.

It was found that the increase from the inception of the student aid programs for the current time is in the neighborhood of 30 percent, so students have been faced with a 40-percent increase in costs which may go someway toward explaining the declining education participation rates that we see.

It also may help explain why we don't find massive impact of the student aid programs on improved access, because we then added up some dollars of awards under the various student aid programs and got an average award per student over a time divided by the cost index and came up with a figure which indicated that there has been no increase in the purchasing power of students of educational service as a result of the increase in student aid. They had been wiped out by inflation.

Mr. O'Hara. I think Dr. Bragdon has had some experience with this. He indicated in his testimony people of middle-income groups are finding it harder and harder.

Dr. Bragdon. There is no question that most of those associated with independent colleges are very unhappy as they see middle-class men and women, boys and girls, precluded from coming to the institution. I think that in some of the more affluent institutions, better endowed institutions, there is a juxtaposition of the very affluent and those of very limited means and those in between are excluded.

At a college like Reed, which is not that well endowed, I think that we see an even larger number of people excluded, including those who would like to come, those who apply and then feel they have to elect to go elsewhere. They elect to go either to a public institution where the prices are lower or they will go to another private institution which is able to support a more generous financial aid program.

I think you mentioned something earlier which should be of concern, although maybe not our main topic here. I think there are certainly people that qualify at middle income, for example, auto workers in your district, and I think throughout the country there are people with incomes that are rather high, maybe even higher than the figures you suggested, in some cases, but where there is not a motivation or history or tradition which gives rise to the motivation to take advantage of educational opportunities that we do have in this society. I think that is a waste of the individual in terms of fulfilling himself or herself and it is a bad thing for society, which needs an educated citizenry.

Mr. O'Hara. That is it, you see. You take the two centers of the University of Wisconsin, they experienced 47- and 23-percent increase over a 7 percent average for the other university centers.

I would like to figure out, in terms of efficiently, what the cost of dropping those tuitions was per aided student, you know. I will bet you, although I may be wrong, because I have not figured it out, but I bet you the per additional student cost was less than any system that could be devised to achieve similar increases in student attendance.

But that gets back to one of the questions I asked. Who is it that is to come? And does it matter who it is that comes? If what we are talking about is not some sort of income maintenance system, or whatever, but if we are talking about is, as has been suggested by Dr. Shabat, achieving a societal good, doing something, not for individual students, but doing something for society, if we proceed on the assumption that an educated society is a better society, if what we are trying to do is maximize the number who continue with their education because it benefits all of us, not just the ones who get the education, what difference does it make if we make it possible for a $15,000 family's child to go to school or a $5,000 family's child to go to school? I mean if we have increased the total by one in each case.

Now, there are equality factors in here, too. I mean that is something else to take a look at. But in terms of the societal impact of increasing the skills and knowledge and ability of our human resources, human resources terms, maybe there is another way of looking at it.

Now, Dr. Van Alstyne had an interesting comment that we sometimes are confusing income maintenance with educational expense. I am not sure whether it was one of your points, but of course that is what we are doing. We are making some of our education aids into an income maintenance program.

We are taking people who ought to be, in my opinion, obtaining income maintenance assistance from other sources, and using scarce education funds to provide them with income maintenance that ought to be coming from other fund sources.

I am not saying they ought not to be getting this. I am just saying that it is going to cost something—well, for instance, we had a student in here from San Francisco State, who was telling us of problems of many of their students, and talking of ADC mothers, for instance, with one or two children having difficulty attending San Francisco State because they were not getting assistance in sufficient amounts to permit them to attend.

I think they ought to get income maintenance assistance in sufficient amounts to permit them to attend, but I think they ought to be getting that whether they are going to college or whether they are not going to college.

What difference does that make? They ought to be getting enough to live on, so maybe we are substituting in a way here.

Mr. Dellenback, I have been just sort of marking time for you to get back here.

Mr. Dellenback. If I may say unofficially to the panel that the quorum call applies equally to the Chairman and to me, the difference between us is that we both come from Democratic districts.

Mr. O'Hara. You couldn't tell it by the last election.

Mr. Dellenback. There is obviously a lot here to stimulate thought. I would think that in that which has been said enough has been thrown out so that we could walk in a series of different directions in a limited time, but, unfortunately, or if we had unlimited time rather we could do that. But unfortunately, our time is limited and we can't.

It would seem to me that we are facing a situation where the peril is, as you said, in effect, we may confuse the question of priorities among different fields with priorities within the field of education, which is succinctly what I read your first point as really saying.

Perspectives do vary as between fields, when we deal with agriculturalists, although we of the Congress must be general, we are dealing with people who are convinced that at the heart of what Government must do is feed people. Be sure they do or they can't do anything else.

When we deal with people who are deeply involved in the field of national defense, they are sold on the concept of we can't remain at peace in the world, we can't do anything else.

When we deal with people who are essentially dealing with the tax structure and the economic society, they are persuaded that the absolute sine qua non is we must have strong economy because if we don't have strong economy, we can't do anything else and if you walk down field by field in housing and education and everywhere else we go, and people who are deeply involved in a field, as you who are careerwise involved in a field, and as we, who to a degree are at least concentrating if not specializing in the field of education, the danger is that we become advocates rather than objective judges.

Now, I say the danger, because of the other side of the coin is you must be fair in a system, that is, have a balancing off. If everybody were the judge, there would be no selling the case and making the hard point of why.

In this instance, education is an absolute imperative. But it runs more than higher education. Even within this field, to move to your second analysis and even if we, who are here involved together, are not fighting the battle of one field against another field but are shifting our discussions to within the field of education, although while looking back over our shoulders at competing fields who are competing for dollars and attention and national interests and everything else that goes with it, we are assuming the importance of the education field, but we are not, even within that field, able to deal with traditional higher education without realizing that emphasis on higher education has substantially shifted, at least as far as congressional interests are concerned, to post-secondary education, which is a much broader field.

And it shifted from the traditional 18 to 24 years of age to a lifelong learning and then, within the field, still we are going way beyond post-secondary and we are talking about really early childhood all the way on up, because all of that is still within the field of education.

Having said this merely to establish a framework, we still today are particularly interested, and we have to, it seems to me, fight off the fascinating temptation to, in this kind of stimulating discussion, deal with all of the problems of the world, and concentrate a little bit on the problems of education and where we talk and what we could do within this much narrower field.

When we deal with data and studies, we are also dealing with something that is dated. We start talking about BOG forms and why people ignore them and so on. In one sense, all of those studies are academic, because they dealt with the first year of a program where $122.1 million was appropriated of which $40 million were unspent and we are now in a different ball game and in a different time when $175 million is available plus a carryover of about $40 million and what are we going to do with that, and what are we going to do the year beyond that, and when we deal with that program we can learn somewhat from what history has told us and what history has told you, but we can't say this is the situation today in that field or a host of these others, because as I say, any data and studies are dated, but the field is dynamic. If the field is static, it is a different thing.

I would say just a word further on this matter of forms. Why do we have forms? We have forms, it seems to me, because dollars are limited and certain goals are sought. Now we could go off into the base and say "Should dollars be limited and how many dollars in this field versus that field." We can quarrel or agree upon what the goals are that are being sought and what the thrust is not, and I wish the Chairman were here because I am sure he didn't really mean that we do it because of some esoteric hirsute philosophy, "Unless it hurts, it is not helpful and unless it is painful it is not good medicine."

It seems to me we do have the problem unless you are going to say, "Whatever anybody wants he or she could have and whatever anybody tells us, it is yours."

We have to have some method of setting a goal for a program and setting a basis for qualifying that program and realizing you have to do that if the dollars that are going to make up that program are limited, as indeed they are.

I do say, having said that, that it seems to me we run a real danger of confusing, first, the need for some information, which is a valid need, with what has grown up and unnecessary and wasteful duplication of effort in filling out forms, asking questions which are irrelevant, asking them 27 times instead of just once.

One of the goals of the subcommittee has been, on our own, and also working with the Office of Education, to see if we can't simplify it because it seems to me one of the really imperative things and an achievable thing is to say an applicant fills out one form.

Now, let's get on there all of the information you need. Then if for a given program you may abstract different sections of the information but for heaven's sake, don't make them walk the road six times or 27 times or however many times it is.

So, I am not in anywise defending the length of forms or complexity or multiplicity of forms, but I am just saying we are going to continue to need something in the way of information but in an area that is on the edge of what is really relevant, and yet unless it goes in too many directions, we don't have time for it.

That is what the new age of majority is going to do to the whole concept of need analysis, because we don't know yet what the ramifications of that are, but if you let your mind play on the subject it could lead you into a situation where the whole needs test runs the risk of going by the boards because at least there will only be a fraction of 18-year-olds who, by any information we have been using, are not in need.

Some that still will not be, but that is going to be a small percentage and it not only deals with the dollars for educational programs, but it deals with the whole sociological impact on families and the whole structure of "Are we going to force independence into an 18-year-old?" So that in order to get some dollars under a Federal program or State program or some other kind of program they have to declare themselves out of the family, which you don't want. At least I am not ready for my 18-year-old daughter to leave in this particular direction.

I think it would be bad for her and bad for society and certainly bad for us.

So, if I may, may I ask a couple of questions about some of this idea of tuition and trying to narrow the focus down on what would be helpful to us in this particular narrow subject that we are looking at this morning.

Dr. Shabat, I gather from what you said that you would advocate the elimination of loans entirely as part of the package of aid? Would you just go to grants and maybe to work-study?

Dr. SHABAT. I was, of course, limiting my remarks to the population which we serve and must serve. I did not get into other fields where I know a lot less and I am not on such good grounds. Here I think I know about as much as anyone else.

I am saying that my experience with the grants when I was a president of one of the colleges before I became chancellor of our system—and my experience goes back now for some 25 years—I did keep tab of all loans. The particular college was for sort of an upper-low-income group, and we have not found by any means all of them who owe money.

We have expended a lot of our own effort and money, and that effort is worth money because it takes time. We even had I suppose Federal people spending money because they have been trying to audit and it has not just been worth it.

I am not so sure about the higher income groups as those in the upper division in graduate work. I didn't purport to speak for that group. I know less and I have some ideas, but I don't claim they are too accurate. I am certain that my colleagues here could speak better than I on that.

You see, for poor people's loans, you have to understand where they come from. Do you know what it is to start to talk to them and ask them about a lot of things that are private? You have to understand their backgrounds, their culture, their fears. Some of them, they may not be worthwhile, but they are real to them.

They don't want to tell you too much about themselves. They have suffered in our society by people asking. They tell me, for example, that "the FBI is going to have everything on every one of us and we don't like it."

That is not for political reasons alone. For any and every facet of their personal lives have been persecuted and disadvantaged in just about every way, and they have been left out and they don't want to come into the mainstream with that kind of a vehicle. That is the sense that I get.

As to the grants, sure there is a package. I said there is a package and it is money and we have a beautiful system in Illinois; it is exceptional. You have to understand this. In fact, one of the most perceptive students said recently, "Is it true, Mr. Shabat, about 10 will probably have to pay and 90 out of every 100, given our incomes, will be able to get the State monetary award if they fill out the form?"

"Yes."

"What are you doing to the 90 out of every 100 for those 10, Mr. Hartman?" I mean let some of them get away? I mean what are we paying for?

I am talking about our sort of college in the big city. I know you can't legislative for that and that you have a difficult situation but these are real people in this big city and there are more of them in the big cities then anywhere else. That is your future and that today is the crucible of our society.

Are we going to work out a new society and better one than we ever had there, or are we going to fail?

Maybe this is too strong language, but this is the way I see it. You do say, Yes, the package of grants or aids, fine, I have nothing against the work-study. You have to work for it. That doesn't mean you are paying. I like the idea, particularly if it comes in our form.

The students are enrolled in programs and these programs are career oriented. I don't care if they go for Ph. D.'s ultimately, that is a career program as far as I am concerned and I think they should get an internship. That is the way we price to maximize the work-study.

It is not necessarily the college. You know out in the real world, so to speak, where there are work stations closely related to the occupational area or the career they have chosen, that is fine for them to make out and they have a chance to do it because they are a not for profit community organization that puts up the 20 cents out of a dollar, and comes in with 80 cents, it is induced to give that kind of experience.

You see, it is a break for them and we maximize that kind of thing. The EOG is a supplement, this is a supplement, and BOG, which is coming in. I agree with your remarks. It is a first experience and a fair experience. Now the second year student and ultimately all undergraduate students can be aided, and there will be more money put up to a certain sum, minus the family contribution.

All of those things are a package. That is what they do in New York where they go to the tune of a maximum of $2,100 in order to keep that student, and this is the college opportunity student from the lowest rung, so to speak, and there are 4,500 of them right now. That is quite a group in total dollars.

The last few years you have to get a package, I am not against that. On the other hand, let me tell you one of the things I am against. Some people tell me, "You know what to do, soak these students with $8 a semester hour, not $4, because what do you care? The student is a conduit for you to get into that State cash register, they have lots of millions, about as much as we have for the community colleges." You know, with the community college board being the conduit.

What you do then, you see, you will hit those people who are better able and can pay $8 so you can give it to the low-income people. I have had some colleagues in community colleges that say, "Make your tuition high enough so you can take a piece of that and waive it for the many who cannot afford it."

This is even worse, because this means the people in that population, here and now, some of them are going to be paying directly for others who could not afford it. I maintain that is the job of society, not this little society composed of those better-to-do students. That should be spread as widely as possible.

So, I come back, yes, to answer you, it will be necessary, unfortunately, though, the needs test is a fact of life. I don't know how to get around that, for the aid.

But for our State, it would have been so much more efficient, so much cheaper, we would have gotten away from some things that people just don't like when they have to go through, like filling out the form, and we get $2 million if the State would have done what the State did for higher education recently. Since it is a big political issue, that is where you come in.

Maybe you are the generalist. I am a sociologist and advocate for the community college, but when our Governor said, "We are not going to have the hike this fall for senior colleges and universities," do you know what he did? He took $3.8 million from the Illinois State Scholarship Commission and general revenues which was added on to and no high tuition.

I said, "Me, too." But I am not getting it. Would I have been cheaper for the State, and I could have saved them money? No one is interested. You talk about economy. I don't find much interest there. I could have saved the State money if they had given us the $2 million and not have had us go through all of these throes because it would have cost us a lot. That is what I mean—the very students we are after in the community college, you might get to meet them and I imagine you have them in your district. I am certain Chairman O'Hara has, he knows what I am talking about, and I don't know where you come from exactly.

Mr. Dellenback. Part of my empathy for what you are concerned about is I grew up in Chicago during my grammar school years near Garfield Park, and I went to high school in New York City at Senn.

Dr. Shabat. I taught at Senn. You haven't been back lately because they are different. I am saying that we should try to economize and maximize those values.

You spoke of values. That is of interest to me as a sociologist. I don't believe a sociologist and economist or political scientist or other social scientists are experts who can determine the values upon which our lives are supposed to be formed. That is for the citizenry as a whole.

This is my pitch. That was my main remark. As you upgrade the citizenry in their awareness of what confronts them, the problems that come in on their lives about which they must have excellence and upon which they must have participation in making decisions, tell you, sirs, if you are going to represent the constituency where they stand, they are the people who really are going to determine the social values and their priorities.

I could, as a sociologist, tell you, if you value two inconsistent values at the same time, if you are saying, this is more important, but to prove it—you put it below another, but I can't tell you what the value system should be. My view is it belongs and resides in our citizenry; therefore, we have to upgrade their intelligence.

That is where the community college comes in in the big city. If we do not do it, I don't know how we are going to make it; not that the community college is going to save the city, but it is a major social vehicle in our society.

Mr. Dellenback. No question about it.

Dr. Shabat. I want to see that we go out, we drag the people in, we call it aggressive, we drag them in.

Mr. Dellenback. I would never put you down as aggressive.

Dr. Shabat. We drag them in, because you see, part of the disadvantage is they have never known about their opportunity, they never even had the self image that they could respect. We have therefore to turn this around, it cost money, but it also takes a lot of effort. We have not found all of the ways.

Mr. Dellenback. The answer is, you are not saying you would eliminate loans completely across the board. You are talking about a narrower group and you made comments on it.

Dr. Shabat. And not for the community college.

Mr. DELLENBACK. I had been slow getting here, I am sorry, and I read your testimony, Mr. Bragdon, and I am pleased. I came from Chicago, but I graduated in Oregon.

Dr. BRAGDON. I guess I would count as a new resident, having been there 3 years and having some familiarity with the city in the form of reincarnation after being a legislative representative of New York City and having a close interest in the city university and its fortunes in New York, somewhat similar to what you mentioned, but I did want to say our financial aid officers for our type of institution, which is similar to a great many across the country, have found the guaranteed student loan program very helpful, particularly for middle income families, and suggest that an adjusted income level of $20,000 might be more appropriate than $15,000, to reflect more accurately what a middle class family might be today, suggesting that the payback provisions might be 10 or 20 years, because students are borrowing more.

I am speaking about loans in general—if we were to narrow the gap in the price between the public and the private institutions, either by institutional support or by more meaningful and extensive assistance to the students in reaching a greater number of student, if we were to do that, that a gap would still remain between the costs, as I would see it, between the charges of the public and independent colleges and the public institutions.

I would think if a student elects, given the fact of that gap, to go to a particular institution as meeting his or her needs, then such loan program, I think, could be of great significance.

Therefore, I would hope it would be kept as part of the arsenal. Of course, the big thing I said is, "if," and I guess my main message is, whether we are going to address that "if" which is what I had been saying earlier, which was, great numbers of colleges and universities of this country which have served significant numbers of men and women and are serving them today won't be here in the long pull unless a conscious decision is made that they should be preserved. And this is a question that is addressed to this committee and all of the men and women in the Congress, and to all of the men and women in State legislatures across the country.

"Do they want this contribution to continue? Do they want this option to remain open to the student?"

I think that we have every reason to be proud of our public institutions. I think they are unique in this country. I think some of the great colleges and universities are part of our public system. I think that the public service commitment is being made largely by our public insitutions including the community college, and that this has been a great tradition in American life.

But in saying that, I think I am saying that inadvertently public policy at the moment is hurting the chances for healthy survival of the independent sector in higher education and I hope that you would agree that that is a significant resource to be preserved and the opportunities for young Americans to go there.

Mr. DELLENBACK. Certainly those of us who served on a national commission, if we needed any persuasion and we had that chance to look it over this year, we are really persuaded that we want the homogeneity of the broad reach, we want State universities, private institutions, and community colleges and all of the gamut of what falls in between, and certainly Bob Hartman's comment on net price is also highly relevant.

While we are talking here essentially on the subject of zero tuition or high tuition, or what you will, it is a conglomeration, it is the putting together and it seems to me that we really do want a blend, we want a blend of grants, of work-study, of loans so far as the student is concerned and I think we should be doing things in connection with institutional aid as part of what is part of the whole package and it does weave together.

You can't take an isolated part out. I think what the subcommittee is striving to do is looking at the whole picture and trying to make at least greater order out of what is not quite chaotic but at least is very mixed up. It is a very worthwhile goal.

Mr. O'HARA. I think, if you will yield, this business of the diversity is greatly complicated, as I am sure you understand, by the fact that the States have made differing decisions with respect to the extent to which they are going to support public higher education or private higher education through tuition grants or whatever.

In the MDTA program, which I had a great deal to do with back in the days of its formation and early development, the question arose about the role of private purveyors of training, whether that should be a nonprofit institution or a proprietary institution or whatever it was, and I was instrumental in getting the act amended and we were trying very hard in our hearings and in our oversight function to make it possible for private, proprietary and private nonprofit institutions to participate fully in MDTA training program, the only question being if they could provide a better service or the same service at a lower cost.

I wanted the Manpower Administration to go to them for that service. Here, where we are not operating higher education system in any sense, not wanting to, not an appropriate role for use, we have these different feelings on State approaches.

I don't see our role as coming in at this stage of the game and saying, all right, now, some States have chosen to favor public higher education and not to assist private higher education, therefore, we, Uncle Sam, are going to provide a compensating help to private education, we are going to, in effect, negate their decisions along those lines.

I don't see it as doing that. If it were our choice from the beginning, I think I would be inclined to go to saying, well, who provides the service, the best service at the best price, you know, and let's use them.

Dr. BRAGDON. Of course, as I indicated earlier, Mr. Chairman, I agreed with the notion of State responsibility, the idea of State responsibility and am most appreciative of the fact that the Federal Government has been even-handed in its support programs and really does not distinguish between public and independent institutions in its support programs. That has been the tradition.

There are, of course, ways and the Federal Government has assumed some responsibility, not only for program and program support and for some segments of higher education, particularly the graduate and professional level where national rather than regional or State need is being met, but also Congress does have the State incentive grant program to consider and that would serve, if that were funded and expanded, as an incentive for those States which do not have scholarships to have them introduced, and it would serve as an incentive for those who have them to enrich them in serving a larger number of students.

Also, there is a direct institutional aid tied with it, not funded I believe, tied into the most recent Higher Education Act.

Personally, and it is strictly a personal opinion, if the hope is to assist institutions, I don't know it should appropriately be tied to the attendance just of low income persons, as the statute presently provides, if the objective is to preserve and strengthen institutions.

Mr. O'Hara. The conference committee back in 1972 spent a lot of hours wrestling with it. "If we were going to go forward with institution aid, what should be the formula of aid?" That was a tough one and we talked of it a bit yesterday and we had some testimony that was 180 degrees on the other side of that coin. What is the best way to go if you are going to have it? Dr. Boyd?

Dr. Boyd. I would simply like to urge you to go ahead with what has been authorized, but not funded. That is the cost of the educational allowance following the students. Of course, while we are accentuating and encouraging a diversity of sources of funding, there is clearly a Federal intent here of supporting students to go and secure postsecondary education, and I think it is being said in private as well as public institutions. But in order to provide that, there has to, I think, be cost of education allowances to go along with student aid so there can be the academic programs to which they could proceed to avail themselves.

What troubles me about all of this is that I am very concerned about not having a huge gap between the private and public institutions, but I do not think the solution to accessibility means or comes from "raising the tuitions of the public institutions."

I think the solution lies in terms of costs of educational allowances and other mechanisms, rather than through higher tuition.

Dr. Bragdon. I perhaps should state that since I am from an independent college, you mentioned your CED study, Dr. Shabat, earlier, but there has never been any contention by the spokesman for the association which encompasses the independent institutions that the way to preserve us is to penalize or change the structure at the public, and some foundations have done so and some task forces have done so, but those who speak for independent colleges have not done so, and I do not do so here.

I do say if we do nothing by that route, at a relatively low price at a public institution, with the taxpayer tuition subsidy, we should, if we wish to preserve the other partners in this process, find a way to narrow the gap.

Consequentially, of course, one way to do that is to raise the prices in the public institutions and conceptually there would be no problem with that if there were a compensating increase in student assistance.

But I think, one, there is the tradition and the public understanding about this and, finally, I would think that, judging the temper of the times, I would think it would be used as a devise by many to raise the prices without such compensation in effect reducing the appropriations for higher education in the States, although I would not think it a wise course to follow even though conceptually it could be done without penalizing either the institutions or the students who go there.

Dr. Boyd. I am very much in support of the chairman's concept, that we don't want the Federal Government moving in and running the whole show. That is not a problem for the Federal Government and a host of arguments could be made why it should not be done.

I am aware of Bob Hartman's comment on net pricing and that is an essential point and we have to consider this as we come up with stimulating lines and goals.

Dr. VAN ALSTYNE. I wonder if I could explore the possible connection between inadequate funding of student aid thus far and the rising tuition gap between public and private institutions.

I am offering this as a hypothesis, but let's run through the numbers and see if it works. The commitment to greater access to post-secondary education is facilitated by student aid programs, but the students well know and the institutions well know that the aid provided is through the Federal assistance programs, that is, aid provided there is generally not adequate to cover the costs, so funds have to be found elsewhere.

Well, the package to a very significant extent is made up by funds channeled through institutions and not earmarked for student aid purposes. I don't know if it is well known, the numbers of dollars that are involved in making up this subsidy gap, but looking at the higher education general information survey data on revenues and expenditures at institutions, if we add up the tuition gap, not the tuition gap, but the student aid subsidy gap, from the point at which the need-based programs were introduced and expanded in the mid-sixties, this difference between student aid expenditures not covered by student aid income, channeled through institutions, has totaled well over $2 billion.

Now that will go a long way to explaining the financial emergency that institutions have experienced. This student aid gap has borne effectively heavy on the private institutions, because with higher tuitions the amount of gap that they have to make up for each individual student is considerably greater and we got data for 1971-72 and much more than half of the student aid gap is made up by private institutions. In that year it was pretty close to half a billion dollars, of which $271 million was provided by private institutions.

Now, the way that private institutions get these funds, in large part, has been they have to raise the tuition to the students who could pay the tuition. So, effectively, what has happened is we ran through the numbers on a per student basis and every student enrolled in a private institution had to pay something in the neighborhood of $125 for every single student to make up this gap in student assistance.

So, essentially, what was happening is this redistribution within the system of those who go to school. So, essentially, what was happening is that the private institutions have to increase tuition to make up for this subsidy gap.

So this inadequacy of the Federal student assistance programs is part of the engine driving apart of the tuitions.

Dr. BRAGDON. I might make that concrete for you with just one example. We put from 12 to 14 percent of our budget, our current budget, out of current funds, into financial aid. So out of a budget of somewhat over $4 million, it is a small college, about $586,000 will be devoted to financial aid for students.

Now, that is a very significant part of our budget, but it comes as was suggested.

Dr. Boyd. I don't see either of you as arguing that since the Federal programs of student assistance have acted as an incentive to bring more students to institutions and, since each one brings with him or her an increased deficit, therefore, the way to restore stability is to wipe out Federal assistance.

Dr. Bragdon. I think that the point probably was if you released $586,000 from our budget for other educational purposes, it would make a significant impact on the budget of something like $4 million or alternatively, it will make it possible for us to have lower tuition.

Mr. Dellenback. This is not within our power or what we should be striving to do, to deal directly with tuition. That is an institutional and State decision and they ought to remain theirs and not ours and all we could do is react to the situation.

Because of time running out and the Chairman has been generous with our time, I will ask only this question of the three institutional representatives.

Granted that the dollars are limited, facing the panoply of programs that were created in the past and by the 1972 amendment, if we could put another $150 million, if it were possible, or make up your figure, into either increasing what is going to be the appropriation for the BOG program, or money for cost of education, where should that money go, into which of those two?

Dr. Shabat. May I lead off with a fast answer? I am assuming that that institutional aid would be given in this situation?

Mr. Dellenback. Under the present legislation?

Dr. Shabat. But with a proviso, it must be used to reduce tuition. Is that what you mean?

Mr. Dellenback. Under present legislation that is not a proviso.

Dr. Shabat. Then, I would give it to BOG.

Dr. Bragdon. I think you will find, although what I say will be just my own reaction, generally colleges and universities and financial aid officers there are very much taken by the current campus base administered program as opposed to the BOG program.

Mr. Dellenback. You would have it go into SOG or CWS?

Dr. Bragdon. They are in favor of those two programs and recognition that eligibility was extended under the 1972 act, that that should be reflected in the appropriations.

I think to some extent the reservations about BOG may be the fear that it will be underfunded and that colleges and universities and students that go there will be worse off than they are under existing programs.

Personally, I think there is a potential in the BOG program, if it were more fully funded and, if it were, or if the income ceilings and the grants award ceilings were raised so that middle income families could benefit by the program, more than they could at the present time.

Mr. Dellenback. Before we ask Dr. Boyd to make a comment, let me share with you my own concerned apprehension as far as BOG is concerned at the moment.

In the first year when we reached just first-year students, we appropriated $122 million plus and about $40 million of it was never used, so only $80 some million was actually expended.

We appropriated in advance funding, so it is a year coming forward. $475 million for that, and there is going to be a carryover because of legislation we enacted of about $40 million, so there will be about $515 and we have expanded it to the first 2 years now.

Now, that is a statistic, the best statistic I could get and that changed, it will bring it with a change from the average BOG grant of $250 to $450 or so dollars and it will take the maximum BOG grant from $600 to a little over $1,000. So it is starting to both expand in numbers covered and also raised those who are going to be benefited.

In order to go in the third year, move it forward to 3 years of coverage, so those helped in the first year and in the second year could get help in the third year, plus bringing along the first two classes along the line; it will take, I think, about $800 million.

Indications are the Appropriations Committee on the House side is going to bring in an appropriation of about $650 million, which means we are asking for trouble down the line, and that is why I picked the $150 million figure out of the blue for illustrative purposes, because I think if you keep BOG moving forward if that takes what we determined we want to have happen, and there is nothing magic about it, then we are going to find about $150 million somewhere and on the Senate side or floor of the House, or somewhere else out of other programs or budgets, or what you will.

Or we won't be able to carry out momentum forward that we carried forward into the second year, and it causes me real apprehension and concern.

Dr. Boyd. To the extent I stated it before, I do feel that there should be a more diverse student aid package than simply BOG. I stated that earlier, but you did not ask that question.

You asked if it is going to BOG or cost of educational allowances and I would take the unpopular position I suppose and say there has to be something for cost of educational allowances because we also have to have a quality education program for them to attend, and that the cost of tuition, or the portion of tuition that pays for total cost of education is not complete either in the private or public insitutions. We have to have some money available for new programs, for greater flexibility because there is also the question of maintaining the quality of education, advancing the nature of education.

We are not dealing with simply a status quo in terms of educational curriculum.

Mr. Dellenback. I will close with one other suggestion and this has been helpful and I wish we could go further, but I will say when we talk about some of the things the Federal Government should not be doing with the programs, there are certainly some things we should be doing, trying to help with such objectives as access and choice and opportunity and diversity, and all of those features which your hindsight tells us and which are objectives that the National Commission talked of and which are not unique.

But we have to apply two things at the same time. We must move forward with programs which make no discrimination on the ground of race, creed, color, sex, religion, etc. And we wrestled with the legal program the other day where the program was a very good program and is a very good program and we want to be sure it applies equally to all people and is not targeted so much toward one of those things that is verboten, that it becomes unconstitutional.

Yet, at the same time, I think there are certain special categories that we just strive to help and I think, unless we target programs in on the disadvantages, the rich are going to get richer and the poor are going to get poorer, and while it is important we deal with the middle income group and will be of help to them, and they do need it, I just am concerned if we yield to the clamor to take care of that at the price of reducing aid to the disadvantages, we are going to further polarize the country and instead of helping to bring about advances all the way we will shoot one up and hold the other down.

Dr. BRAGDON. I don't believe anybody at this table would suggest that would be the course to follow.

Dr. BOYD. That is the one thing that everybody is agreed upon.

Mr. DELLENBACK. I thank you all very much.

Mr. HARTMAN. I would like to back up what Congressman Dellenback said now and come back to a point Congressman O'Hara raised earlier. I think there are really two central goals for public policy here. One has to do with the general benefits of higher education and economic growth, that it stimulates a more informed citizenry and a more tolerant citizenry that a successful higher education produces, yields productive workers. Here I see no distinction really between a kid from a poor family and any other student. These are gains to the society no matter who received the higher education. The only reason I might still distinguish is, if I believed that a grant would change a low-income student's decision, but would not really make any difference for a higher income student's decision, then I could see some reason for wanting to target funds simply because it was more effective.

Mr. O'HARA. Or vice versa.

Mr. HARTMAN. Right, if it was more effective for the higher income student, he ought to get the grants, but there is another goal involved here.

I may be the last man in the country who still believes these stories of "no matter who your father is you have a chance to become President of the United States." There are still a few people.

Mr. DELLENBACK. Don't wish that on anybody.

Mr. HARTMAN. There are people who still think that a very important element to a country such as ours is the possibility of really significant social mobility; certainly a major part of supplying that is higher education. In that case you do want to distinguish between students.

It is more important that a black child from a very poor home be, if necessary, almost pushed into higher education so that the possibility exists that he will move up in the social and economic structure.

That is more important than whether a schoolteacher's child who has had all of the advantages, all of the incentives given to him and he chooses to opt out and not want to go to higher education. I don't think those are self-canceling kinds of propositions from a social point of view.

It is more important to give every push in the direction of enhancing upward social mobility from current disadvantaged citizens.

I don't really think that people around here disagree with that and we all can applaud our consensus, but when it comes down to hard numbers of "Do you put the money into BOG" or "Do you put the money into institutional aid," the fact is we have to make a choice on that score because the funds are limited.

I would like to say something about this BOG versus institutional aid versus other programs question. It seems to me there is almost a death wish in Congress on educational legislation. The one program with the longest history of this is the title I program under the Elementary and Secondary Education Act.

Congress authorized approximately half of educational expenditures should be added to ongoing educational expenditures in districts to provide compensatory service and it was thought that this amount would really make a difference in schools with concentrations of low income children. Congress then proceeded to fund title I at a much lower level and then to read evaluation reports that say the money does not do any good. Those reports now become a reason to hold down title I programs.

Nothing has ever been done to carry through the original proposition that at full funding maybe that program would have made a difference.

Now, in the BOG program, which is of more central concern to you, Congress passed a program with a $1,400 maximum grant and then proceeded to fund it at a level that didn't make it worthwhile to fill out the form for many students: the value of the time alone made it not worthwhile to fill out the form at the funding level during the current academic year.

People look at this and say they couldn't even spend the money. Moreover, everybody who was said to need a grant didn't apply. So, therefore, it becames an argument for underfunding BOG the next year and so on.

I don't think the mistakes of title I ought to be repeated on basic grants. I think this is a case where you could try to carry forward a commitment originally made that this is a way of trying to help disadvantaged students, even somewhat higher income students, to go to college and at full funding for a few years and we could really observe whether it would work.

I think it would. I have no way of proving it, but I repeat, that the mistake that was made before is coming back to haunt us and I find something very disturbing about the recurrence of this in educational legislation.

Mr. O'HARA. OK. Underfund CWS and EOG and NDSL in order to fully fund BOG's, but it is not okay to underfund BOG, right?

Dr. HARTMAN. I think if we wanted to make equal percentages of authorization, that would certainly move the BOG program up a lot faster than the NDSL program.

Mr. O'HARA. I don't know about NDSL but the panel approved, or the percentage of panel approved amounts that are going to NDSL and CWS and EOG are running less than 50 percent.

So, of course, I think one of the things we have to decide is whether the education system is the place for an income redistribution program or whether the tax system is the place for the income redistribution program.

I think there is some need for an income redistribution program of broader applicability than the educational system. I am not sure that the education system is the best place to do it. Maybe what we ought to try to do in the education system is not use the education system. Maybe we ought to use the tax system to do income redistribution.

God knows I favored that in the 16 years I have been here and have voted for progressive tax stytems and for closing loopholes.

Maybe we are trying to do a job with our aid to education that ought to be done somewhere else.

That gets back to my earlier statement that maybe what we are doing is income maintenance in a lot of these programs and maybe we ought to insist that income maintenance be done in the places it ought to be done, so we could concentrate on getting educational services to more people. At least that is a possibility. I know that the president of Fordham University was here yesterday and had an interesting remark to simplify, in effect, he says: "Grants for tuition costs." Not the full tuition costs, but that is not the important part of the point I wanted to get across. Grants for tuition and school attending expense work and loans, college work study and loans for living expenses. That is another way of looking at it. It is interesting.

The Jesuits are very logical, you know, sometimes mistaken, and I know because I went to a Jesuit school and they are responsible for a lot of my mistakes. But that is another item.

Dr. VAN ALSTYNE. It makes a great deal of sense to split the aid package between that which goes for educational purposes and that which goes for the living or for social purposes and it may make a great deal, or we may solve some of our problems if we split the notion of BOG's entitlement.

The BOG's entitlement now groups those two together and it may give us some problems that could be solved by splitting those objectives and treating them differently.

I would like to make a comment on the concept of entitlement. We thought we were moving in the direction of a right to support, or right to access to higher education. But in addition to the underfunding, so that we have an inchoate concept of entitlement. There is a basic difference, it seems to me, between the entitlement enacted for the student assistance programs and those with which we are more familiar under the social security and Veterans Administration benefits.

In the case of the VA and social security entitlements, we have a handle on who is entitled to assistance. We know how many veterans there were and we have some idea of what the aggregate entitlement might be. We know who comes into the social security system, who is covered, and we know the age distribution and who is covered in employment.

We have not been very specific about who is entitled to student assistance. We have not really figured out whether this is limited or ought to be limited to the 18 to 20 years old the 21 years olds. Is there some retrospective thinking or are we going to help those who missed out for lack of opportunity a few years ago?

What kinds of learning activities are included? It seems to me we are not at all specific about: "Who is disadvantaged?" That is with respect to a claim for public support, additional public support. And it seems to me we have to be much more specific about the educational goals that we seek to achieve and then define entitlement in terms of those goals and we have an open ended entitlement, we are going to have continuing determinations of what those budget figures should be because we have not defined what that entitlement is.

We have not been specific in fact as the language has led us to believe.

Mr. O'HARA. Well, I have enjoyed our discussion very much. I suspect maybe we come out of it further apart than we went in, but at least I make no claim for having resolved differences.

I don't want to go so far as to say we have come out further apart than we went in. We have enjoyed it and I found it a very useful discussion. I look forward to having some more such discussions. I think there are many roads to educational access, just like there are many roads to some other things, and one of those roads certainly is to provide a free, easily accessible system of Statewide community colleges.

And I am not sure that is not one of the cheapest and easiest and best ways. I don't know. But I just say there are lots of ways of doing it and we want to explore them.

We want to make sure that although we may not find the ultimate answers that we don't present someone else with finding them when we come out with our legislation.

So, thank you very much.

Mr. DELLENBACK. I am grateful to each one of you.

Mr. O'HARA. Thank you very much for having helped us out. The subcommittee will stand in adjournment and meet again Monday morning at 10 a.m.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 10 a.m., Monday, June 24, 1974.]

APPENDIX

THE UNIVERSITY OF IOWA,
Iowa City, Iowa, July 1, 1974.

Hon. JAMES G. O'HARA, M.C.,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: I want to thank you for the opportunity of appearing before the Special Education Subcommittee to present my views with respect to tuition levels and institutional aid. After reflecting on the comments of my colleagues on the panel and on the dialogue with you and Mr. Dellenback, I am still persuaded that while other elements surely play a role, the most important single factor in maintaining access to postsecondary education for *all* students is the maintenance of the lowest possible levels of tuition at all institutions. This conviction is based on several considerations: (1) the belief that education is a major social benefit; (2) the extraordinary role that low-cost public institutions have played in extending access to new classes of students and to newly developed geographical areas; (3) the finding of the National Commission on the Financing of Postsecondary Education that for every $100 increase in tuition at public institutions there is a decrease of 0.7–3.1% in enrollment depending upon income level; (4) evidence that there is a strong correlation between availability of low-cost institutions and the utilization of Vietnam veteran's education benefits; and (5) the recent Wisconsin experiment.

Since most observers agree that increases in state and private support will not keep pace with rising costs, I conclude the federal government must become a major partner in the pursuit of this goal. Thus I urge the Congress to give further consideration to a program of general institutional aid, and to give immediate attention to funding the cost-of-education allowances tied to the number of federally assisted students. The rationale for the latter is clear, precedent has been set in many other programs, and the authorization exists. I also suggest that a simple change in the authorization language requiring funding of these allowances at some level related to the level of funding of the student assistance programs is justified at this time.

I hope it will be possible for the Congress to act affirmatively on institutional aid in order to assure both institutional accessibility and vitality.

Sincerely yours,

WILLARD L. BOYD,
President.

AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES

JUSTIFICATION FOR FUNDING THE COST-OF-EDUCATION PROGRAM

I. Introduction

The associations which represent most institutions of higher education in the United States—public and private universities, four-year colleges, and two-year colleges—agree as a matter of highest priority that the cost-of-education (COE) section of the Education Amendments of 1972 should be funded in the fiscal year 1975 budget.

The statutory reference is Section 419 of Public Law 92–318.

II. Legislative history

Cost-of-education legislation was considered at length by the Congress and the executive branch in 1972.

The report of the Senate Committee on Labor and Public Welfare on the Amendments (Senate Report No. 92–346, August 3, 1971, page 43) states:

The Committee presumes that, by making basic grants available under subpart 1, more students will attend institutions. All evidence available to the Committee indicates that the tuition and fees paid by a student do not cover the cost of instruction for that student, and that the difference beween the cost of instruction and the amount of tuition and fees paid by the student must be made up by the institution either from other sources or by raising the amount of tuition and fees paid by the student. To the extent that enrollments increase as a result of Federal activities, the Federal government is imposing a burden on institutions. If these institutions merely increase tuition, the purpose of the student aid is defeated. The payments provided for by subpart 5 are designed to reimburse the institutions for part of the Federal burden incurred by them.

III. Some key arguments for cost-of-education funding

1. *Carrying out a major federal purpose.*—As the Senate report stated, the Congress has asked the nation's colleges and universities to carry out a major federal purpose—to provide educational opportunities for about 1,300,000 federally aided students who might otherwise not be able to attend. However, the student aid funds provided by the federal government, even if they were adequate for this purpose (and they are not), would provide only for the student's living expenses and a fraction of the cost of this instruction.

The recent report of the National Commission on the Financing of Postsecondary Education (page 254) states that the institutional cost per undergraduate student in 1972–73 ranged from about $1500 to about $3000 per year. (Because of inflation, current costs are considerably higher—perhaps 10 to 15 per cent higher.) The student's tuition covers only a small part of this cost. The additional cost per student is a deficit which must be made up either by the institutions, or by raising tuition for all students.

2. *Making up the student aid deficit.*—American Council data shows that because of the inadequacy, the institutions themselves are pouring almost half a billion dollars a year into institutional student aid. These funds, taken from their own general funds or endowments, prove the commitment of institutions to needy and disadvantaged students. But at the same time institutions cannot continue to depelete their own resources in this way.

3. *General financial distress.*—Many public and private institutions are in serious financial distress, usually for reasons which the college can do nothing about. These reasons include the national and international economic situation, the large increases in wages and prices which particularly affect a labor-intensive enterprise like education, the especially sharp increases in energy costs, and other factors. Further, the federal government has added to college costs for many socially essential purposes, by including colleges in legislation covering minimum wages, unemployment compensation, and other programs. It is also estimated that many colleges may have to spend millions of dollars to comply with the new Occupational Safety and Health Act.

Indeed, Congress was so concerned about financial distress that the 1972 Amendments included a program of financial aid to distressed colleges, as well as a request that the Postsecondary Financing Commission created under the law give high priority to study of distress.

4. *Aid to the disadvantaged.*—Not all federally-aided needy students are "disadvantaged," requiring special assistance in terms of remedial education, tutoring, or special counseling. But some are, and the education of these students also requires additional institutional resources. Some programs for the disadvantaged require additional spending of $600 to $700 per student per year, over the $1500 to $3000 spent on the average student.

5. *Precedents.*—There are many federal precedents for cost-of-education. Almost every federal graduate fellowship program or teacher training program—such as the NDEA–IV graduate fellowship program—has included a cost-of-education payment to the institution as well as a stipend or living allowance for the student. In recent years this cost-of-education allowance was around $2500 a year for many graduate programs.

The rationale in each case for cost-of-education is the same. The federal government identifies an important problem or social need, and establishes a program to deal with it. In each case the government provides some funding for the college to provide the service, and at the same time some funds for the student to live on.

Here are some examples of programs which included a cost-of-education allowance: The National Defense Education Act—Title IV, graduate fellowship; National Science Foundation—graduate fellowships and traineeships; National Institutes of Health—graduate fellowships; Atomic Energy Commission fellowships; National Aeronautics and Space Administration traineeships; and many

Office of Education teacher training programs, such as the EPDA–E institutes and fellowships and the NDEA-Title XI institutes.

The same reasoning was at work when Congress adopted the Education Amendments of 1972. The national purpose, helping lower-income students go to college, was to be carried out both by grants to students and grants to the institutions providing the service.

IV. Arguments against cost-of-education

The principal argument against funding cost-of-education has been a belief that student aid should have priority.

The association answer to this is very simple. The higher education community has consistently supported much higher levels of student aid funding than the administration. Colleges and universities, as previously stated, have been spending some $500 million a year of their own institutional funds on student aid.

But at the same time the institutions believe that they cannot continue to provide these educational services indefinitely, unless there is some aid to institutions as well as to students.

A very large percentage of the present Office of Education budget for higher education now goes into student aid and closely related programs for students. Many categorical aid programs to institutions, such as facilities aid, have been ended. Other programs, such as aid to college libraries and to land-grant colleges, are opposed each year by the administration.

Since student aid, even at much higher levels of funding, would provide only a fraction of the cost of each student's education, the institutions seek a better balance between aid to students and aid to institutions.

There is another reason why some planners in and around the federal government oppose institutional aid: they oppose low-tuition public higher education. Following the leadership of some national commissions and study groups, they advocate a sharp increase in tuition at public colleges to double or triple present levels, and believe most students should finance their education with expensive long-term loans. From this viewpoint, aid to institutions would help to preserve lower tuition levels at both public and private colleges, and is therefore undesirable.

ALLAN W. OSTAR,
Executive Director.

MIDDLESEX COUNTY COLLEGE,
Edison, N.J., March 11, 1974.

Hon. JAMES G. O'HARA,
House Office Building,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: I have admired the stand that you have taken with respect to maintaining access to post-secondary education through low student tuition. As you probably know, student tuition in many public institutions in different States ranges from a zero tuition to approximately $1,000 per, annually. I would like to briefly outline to you my proposal for financing post-secondary education. If you would like me to elaborate further, I would certainly be glad to do so.

If equitable and maximum access is to be maintained in public institutions, the Federal Government will need to police the system or provide some incentive for State systems to maintain low tuition. This could be accomplished if the Federal Government matched dollar for dollar student tuition up to a maximum of 20% of the annual cost per student, per institution or per student enrolled in public institutions in the State. If the cost per student exceeded 20% of annual cost, the Federal Government would reduce their matching dollars in like amount.

In effect, student and the Federal Government would be absorbing 40% of annual operating costs of public institutions. On the other hand, this would be insurance that proportionately low tuition would be maintained in the future for all students in all States. Under this policy, the art of grantsmanship would be reduced and all institutions would benefit from a proportionately uniform federal support of annual operating cost.

This policy, if adopted, would recognize those State systems that have developed outstanding post-secondary educational systems by subsidizing them in a proportionate manner. This policy would also encourage other State systems of public education to make more adequate development of post-secondary education because they could obtain up to 20% of a federal subsidy to meet annual operating costs.

It seems to me that the national government, i.e., all of the people, needs to be concerned and interested that maximum access to post-secondary education is available to the citizens of this country and that all States would develop the most adequate institutions to meet the educational needs of the people and the nation. As to the matter of federal control of education, I do not recognize that an annual subsidy to all institutions on the same formula basis would introduce any possibility of federal control of post-secondary education.

In proceeding along these lines, I think legislation could be prepared whose total cost would be reduced by eliminating some existing federal programs of financial assistance to institutions and reducing the need for as much student financial aid by, in effect, minimizing current and future student tuition cost.

Thank you for your consideration of this suggestion.

Sincerely,

FRANK M. CHAMBERS,
President.

THE ASSOCIATION OF AMERICAN UNIVERSITIES,
Washington, D.C., June 10, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the debate over cost-of-instruction allowances to institutions, I thought you and your colleagues might find the enclosed paper on precedents for Federal payments to cover costs incident to college and university participation in Federal programs.

I hope this paper will be of use in your hearings and further deliberations.

Sincerely,

CHARLES V. KIDD,
Executive Secretary.

Enclosure.

PRECEDENTS FOR APPROPRIATING FEDERAL FUNDS TO COVER THE FULL COSTS OF FEDERAL SPONSORED ACTIVITIES IN COLLEGES AND UNIVERSITIES

SUMMARY

The principle that the federal government should cover the full cost of activities which it sponsors in colleges and universities is solidly established in legislation, administrative practice and appropriations.

The two major activities for which payment of full costs is both authorized (specifically by law, by administrative action, or both) *and funded* are payment of the full costs of federally sponsored research and of federally sponsored graduate students. Analogous payments to permit a contribution by the government to the full costs of educating undergraduate students with federal stipends is authorized in Title X of the Education Amendments of 1972 (part 419), but it has not yet been funded.

An appropriation for the cost of education part of the Education Amendments of 1972 is logically required to carry out a policy already established in principle and already funded in two important programs.

GRADUATE EDUCATION

Federal fellowships for graduate students do not come close to covering the full cost of educating graduate students. Therefore, when universities accept students with federal fellowships for research, the universities must spend much more on the education of the student than is provided by the fellowship.

Accordingly, it is a fixed federal policy to provide a cost of education allowance to the institution on behalf of each student with a federal fellowship. This allowance is now $3,500 per student and the current issue is how much it should be increased. The National Board on Graduate Education has proposed $4,500; the Rivlin report proposed $5,000. These sums are made available in connection with every federally funded graduate fellowship.

It should be noted that undergraduates with federal stipends are exactly analogous to graduate students with federal fellowships in that acceptance of both groups requires additional institutional expenditures. While the cost to the university of each aided graduate student exceeds the cost per aided undergraduate, the number of aided undergraduates is so much larger that the institutional burden generated by undergraduates with federal aid exceeds that generated with federal aid.

Consistent federal policy would call for appropriation of a cost of living supplement to undergraduate stipends, under the authority conferred by Title X of the Education Amendments of 1972.

RESEARCH

The federal government makes funds available to cover the full cost of research which it finances in universities. These costs are of two kinds—direct and indirect. Direct costs are those clearly and totally attributable to the project being financed—wages and salaries, equipment, and supplies, for example.

However, when a large volume of federally aided research is conducted on a campus, the conduct of this research throws a load on many university facilities. Library use increases. Maintenance costs rise. Use of central computer facilities increases. The administration of grants and contracts requires additional staff. All of these costs are joint costs—shared by many users and attributable to no one of them. Yet the costs are real and must be paid.

It is fixed federal policy that these joint, or indirect costs, should be paid when the federal government finances research in colleges and universities. The procedures for calculating these costs have been worked out over a period of years, and are incorporated in an OMB Circular-A21. The General Accounting Office studied the theory and practice of payment of indirect costs and prepared a report for Congress endorsing the principle and the methods for calculating indirect costs. The total indirect cost payments currently amount to about $700 million per year.

The principle of paying indirect costs on research would if applied to undergraduates with federal stipends result in payment of a cost of education allowance for each federally aided undergraduate.

THE UNIVERSITY OF WISCONSIN SYSTEM,
Madison, Wis., July 30, 1974.

Hon. JAMES G. O'HARA,
Chairman, Special House Subcommittee on Education,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: While I was unfortunately unable to appear before your committee for testimony on higher education financing policy, I did promise to prepare a statement for inclusion in the Congressional Record. The following constitutes that statement.

I would like to focus my comments on one point in the current debate over the relative merits of high and low tuition approaches to financing higher education. This point is essentially the criterion for determining *access* to higher educational opportunity. I will illustrate with questions.

1. At the current crossroads of debate over financing policy what is, increasingly, the real criterion for access?

As Wisconsin data indicates, the criterion increasingly appears to be who can afford to pursue higher education. As wages have failed to keep up with rapid inflation and rapidly escalating tuition and fee rates and other costs students have changed attendance behavior by either avoiding enrollment in public higher educational institutions (since 1969, UW System enrollments as a percent of the Wisconsin annual pool of high school graduates have declined from 38.4% to 30.1%) (see Table 1), or, when enrolling, saving on room and board expenses by attending institutions close to home (see Table 2). (This has been a clear trend in state resident enrollments since 1969.) When tuitions are decreased enrollments increase sharply. Results of our low tuition experiment which have already been reported to you, demonstrate this later point.

2. What are the probabilities that government will adequately support higher education for the most needy under student aid-high tuition policies?

To date there is little evidence that government will adequately support compensatory student aid for the most needy. The student-aid-centered federal budget of 1973-74 certainly was inadequate for the needy and students from middle income families also suffered as a result of decreased eligibility for federal student loans.

This year Congress, in response to middle income citizen reaction, seems inclined to increase middle class eligibility for both grant and loan assistance. But if such accessibility is increased, where will this leave the truly needy student? Past precedent in the loan area as reported by the Brookings Institute economist, Robert Hartman, indicates that increased middle class eligibility results in fewer funds available for students from low income families. A recent study of the Basic Opportunity Grant Program by the University of Wisconsin economist Lee Hansen warns that students from affluent families may distort the original intent of the program by securing eligibility through declaration of "independence" from parental support. As was the case with the loan programs, this would decrease the availability of grant support for students from low income families. I think the wisest course would be to more adequately support grants for the truly needy student while providing broad access to educational opportunity through maintenance of the low tuition at public universities.

3. Can student aid-high tuition financing policies improve the efficiency and effectiveness of the low tuition approach as a vehicle for broad access to higher educational opportunity?

The low tuition system has historically demonstrated its ability to provide broad access with minimal bureaucratic supervision. The student aid-high tuition approach would require a large bureaucracy to accomplish the same end while creating rich opportunities for bureaucratic mischief. A point often stressed by high tuition advocates is that the approach would decrease the need for public tax support for higher education. The rich and the middle class would help increase access for the poor. However, currently Congress is considering raising limits of substantial eligibility for BEOG grants to students from families with incomes over $9,000. The average annual family income in non-metropolitan Wisconsin is around $8,200. With the average family being eligible for governmental grants it is hard to visualize how tax support can ultimately be lower under a high tuition system than it is under a low tuition system. Furthermore, under the BEOG approach institutions would have incentives for raising tuitions in order to maximally capture federal funds. What would this do to broad access?

4. Would private higher education benefit from student aid-high tuition policies?

Certainly it is clear that private institutions would not be hurt as badly as public institutions. Wisconsin data shows that private institutional enrollments since 1969 have, almost plateaued while enrollments at public institutions enrollments have declined much more sharply due to accelerating tuition rates. This suggests that private institutions might possibly benefit by raising tuitions at public institutions. But, what would be the impact on societal access to higher educational opportunity? Again, it seems clear that broad access would suffer.

5. If a student aid-high tuition approach isn't likely to improve societal access, why should government abandon the low tuition approach and substitute a high tuition approach?

I leave it to your committee to answer this question.

Cordially,

JOHN C. WEAVER, *President.*

TABLE 1.—NEW FRESHMAN ENROLLMENTS (UW SYSTEM, PRIVATE COLLEGES AND NORMAL SCHOOLS, VTAE COLLEGE PARALLEL) AND ANNUAL POOL OF HIGH SCHOOL GRADUATES[1]

	High school graduates	UW system new freshmen	Percent of high school graduates	Normal schools and private colleges	Percent of high school graduates	VTAE college parallel	Percent of high school graduates	Total	Percent of high school graduates
1969	66,697	25,621	38.4	7,411	11.1	1,502	2.3	34,534	51.8
1970	66,874	25,599	38.3	7,179	10.7	1,715	2.6	34,493	51.6
1971	67,182	23,652	35.2	6,663	9.9	2,054	3.1	32,389	48.2
1972	69,817	22,078	31.6	7,035	10.1	1,758	2.5	30,871	44.2
1973	70,789	21,710	30.7	6,490	9.2	1,529	2.2	29,729	41.9

[1] Comparable figures are unavailable for all VTAE enrollment categories and enrollments at institutions outside Wisconsin.

TABLE 2.—UNIVERSITY OF WISCONSIN SYSTEM CHANGES IN COMPOSITION OF UNDERGRADUATE STUDENT BODY BY CATEGORY, 1970–73

Degree granting campuses	Total undergraduate enrollment, 1970	Change in enrollment from campus county, 1970–73	Percent of 1970 enrollment	Change in enrollment from other Wisconsin counties, 1970–73	Percent of 1970 enrollment	Change in nonresident enrollment, 1970–73	Percent of 1970 enrollment	Total change 1970	Percent of 1970 enrollment
Group I:									
Campus A	4,486	−55	−1.2	−406	−9.1	−565	−12.6	−1,026	−22.9
Campus B	2,684	−197	−7.3	−180	−6.7	−56	−2.1	−433	−16.1
Campus C	3,918	−47	−1.2	−199	−5.1	−184	−4.5	−430	−11.0
Campus D	6,862	−25	−.4	−367	−5.3	−71	−1.0	−463	−6.7
Campus E	7,936	−112	−1.4	+519	+6.5	+43	+.5	+450	+5.6
Group II:									
Campus G	8,882	+237	+2.7	−1,967	−22.1	−590	−6.6	−2,320	−26.1
Campus H	10,512	−6	0	−1,262	−12.0	−275	−2.6	−1,543	−14.7
Campus I	8,414	+473	+5.6	−1,528	−18.2	+230	+2.7	−825	−9.8
Campus J	4,812	+192	+4.0	−263	−5.5	−194	−4.0	−265	−5.5
Group III:									
Campus W	17,442	+2,931	+16.8	+282	+1.6	+41	+.2	+3,254	+18.6
Campus X	4,102	+627	+15.3	+65	+1.6	+47	+1.1	+739	+18.0
Campus Y	24,393	+1,843	+7.5	−52	−.2	−2,351	−9.6	−560	−2.3
Campus Z	2,950	+108	+3.7	+391	+13.2	+246	+8.3	+745	+25.3

TUITION: ANALYSIS OF RECENT POLICY RECOMMENDATIONS

Carol Van Alstyne, Chief Economist, Policy Analysis Service, American Council on Education

[NOTE.—I want to acknowledge the substantive contributions to this paper of colleagues at the Policy Analysis Service of the American Council on Education, particularly Cathy Henderson, Laura Kent, and Yi Tsien. A number of reviewers identified with a broad spectrum of positions on tuition issues provided extremely helpful comments on an earlier working draft of this paper.]

Recent recommendations on tuition policies of national groups studying the organization and financing of postsecondary education[1] have touched off strenuous debates in federal and state legislative chambers, in academic councils, in the media, in the coffee houses near the nation's campuses, and across the dinner tables of American homes. Tuition recommendations are proposed or analyzed in three major reports:[2]

"Higher Education: Who Pays: Who Benefits? Who Should Pay?" Which appeared in June 1973 and is one of the final volumes of a six-year, $6 million study effort by the Carnegie Commission on Higher Education. Later, in April 1974, the Carnegie Commission issued "Tuition" as a supplemental statement to the original report;

"The Management and Financing of Colleges," published in October 1973 by the Committee on Economic Development, a group of 200 business and civic leaders. The report culminates 28 months of analysis and discussion supported by contributions totaling several hundred thousand dollars from the CED itself and several major foundations; and

"Financing Postsecondary Education," the final report of the National Commission on the Financing of Postsecondary Education, released in January 1974, the product of 15 months of Commission and of professional staff work with a budget of $1.5 million.

Both the Carnegie Commission and the CED recommend that tuition be raised at low-tuition public institutions, and at the same time, the aid to low-income students be increased to help them overcome the financial barriers they face in furthering their education.

Specifically, the Carnegie Commission recommends increasing tuitions over a ten-year period until they reach one-third of educational cost at the upperdivision levels, while maintaining low or no tuition for the first two years of postsecondary education.[3] The CED recommendations are more drastic: that tuition levels be raised to one-half of instructional costs, over a five-year period at four-year institutions and over a ten-year period at two-year institutions.[4] Both the Carnegie Commission and CED emphasizes that their recommendations with respect to increased tuition are linked to, and inseparable from, their recommendations with respect to increased student aid.[5]

The National Commission report includes no recommendations on tuition levels; rather, it uses an analytic framework to compare several alternative financing plans—including one based on the Carnegie Commission proposals and one on the CED proposals. The analytic framework developed so far can be used to evaluate the financing plans in terms of how well they achieve goals specified by the Commission for student access, choice, and opportunity (but not the goals specified for institutional excellence, independence, or diversity).

The current debate over tuition levels is extraordinary in that both sides—that is, those who want to increase tuition and those who want to keep tuition low—claim to be seeking exactly the same objectives; namely, to broaden educational opportunity for low-income students, to enhance the quality of postsecondary education, and to assure the vitality of the private colleges and universities, thus preserving the diversity of our higher educational system. And each side claims to be seeking these objectives in the most effective and most equitable way.

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[1] Education beyond the high school is now referred to as postsecondary education. Much of the available information, however, relates only to collegiate or higher education in the traditional sense, and the vocabulary in the text of the paper shifts between the two terms accordingly.

[2] For complete citations, see the list of references at the end of the paper.

[3] In its June 1973 report, the CCHE recommendation of low or no tuition is applied to the first two yars of postsecondary education at both two-year and four-year institutions; in its April 1974 supplemental statement, the recommendation is applied only to the two years at a two-year institution.

[4] The term educational cost (used by the CCHE) includes such functions as departmental research and public service; thus it is a somewhat broader concept than the term intructional cost (used by the CED), which relates specifically to teaching. In deriving these costs, the CCHE includes only current operating costs, whereas the CED includes capital costs ("a reasonable allowance for replacement of facilities").

[5] Presumably, the relation of tuition to cost is specified in terms of gross tuition: that is, before student assistance is netted out.

Those who advocate raising tuitions assert that such a strategy would do no more than slightly accelerate existing trends in financial support for postsecondary education. But if tuitions in relation to costs are set half again to double the present levels, if more of the cost of education is shifted to the current student generation, if students must depend significantly more on loans to finance the added costs, and if heavier reliance is placed on market mechanisms for allocating resources to and within higher education—then, the ultimate result will in fact be a significant break from the tradition of low-tuition public higher education in this country.

THE PREMISES

The Carnegie Commission and the CED reports differ materially in analytic aproach, in policy emphasis, and in the substance of their respective recommendations. But a number of the arguments they make in favor of increasing tuitions are similar.

As synthesized from the two reports, there are three major arguments, each of which is used as independent grounds for increasing tuitions. The first relates to financial distress in higher education and may be summarized as follows:

1. There is widespread financial distress in higher education.
2. This distress results from the more rapid rise in costs than in income.
3. Though cost increases may be held down to some extent by improved management of educational resources, costs will continue to rise because of the labor-intensive nature and the consequent low—or at least relatively unchanging—productivity of higher education.
4. Income from public sources will not increase much, if at all, and surely not faster than the rate required to keep up with inflation or enrollment growth. Therefore, financial distress is a serious and long-term condition.
5. The only available source of added income is private—that is, predominantly, the students and their parents. Therefore, tuitions should be raised.

The second argument relates to equity and efficiency in the allocation of existing public support of postsecondary education:

1. Allocation of public subsidies is inequitable in that a disproportionate share goes to middle- and upper-income students.
2. Existing public subsidies are inefficient to the extent they go to middle- and upper-income students who would attend college anyway; therefore, such subsidies should be targeted to those students whose educational decisions they will affect.

What is more, this shifting of educational costs is both practical and reasonable because:

3. As incomes have increased, students and their families have become better able to pay higher tuitions; and
4. The benefits of postsecondary education accrue largely to the individual rather than to society—or at least a large share accrues to the individual that would be reflected by the current low-tuition financing patterns; therefore, as a matter of equity, a larger share of the costs—or at least a larger share of the increase in costs—should be borne by the beneficiaries: the students (and their families).

The third argument is that, collaterally, increasing tuitions would improve the postsecondary educational system:

1. If the tuition gap between the public and the private sector is reduced, private institutions—many of them now under great financial strain—will be able to regain their health and vitality; thus, the diversity of our educational system will be preserved.
2. If support for postsecondary education is increasingly channeled through students, who then carry assistance funds with them, institutions will be forced to compete in the market for students. Thus they will become more responsive to the educational needs of the students and of society.

This summary represents, I think, a fair statement of the case put forth by those who propose that tuitions should be raised to cover a larger share of educational or instructional costs. The next step is to reexamine each of the three arguments, starting with the diagnosis of financial distress in higher education.

FINANCIAL DISTRESS

In dealing with the question of financial distress, we should recognize at the outset the appalling fact that we do not at present have solid, agreed-upon measures of financial conditions either within individual institutions or within the system of higher education generally. Reports of current fund surpluses or deficits are incomplete measures of the financial strength or weakness of nonprofit educational institutions because current funds are only one of several funds that make up the accounting system of such institutions. Institutions generally establish other funds to account for endowments, plant, loans and annuities, and life income. Moreover, increases in total fund balances are not accurate indicators of the funds available on a long-term basis to support the increasing costs of high-quality education for larger, or even stable, numbers of students.

The present situation

But financial distress is no less real because we lack precise measures of it. The consequences of the distress are everywhere apparent. In many instances, the development of new educational programs has been curtailed, moratoria have been imposed on the hiring of new faculty members (indeed, in some cases, financial exigencies have forced wholesale dismissals of teaching and administrative staff), salaries have been frozen at levels that represent an erosion of purchasing power in the face of spiraling inflation, routine maintenance has been deferred, and reserves have not been set aside for future replacement of plant and equipment. In short, we have seen enough of the effects to know that a financial crunch exists; and it would be obdurate to argue that, because on balance the entire system of higher education does not show a deficit, intrasectoral distress does not rise to a level of national concern.

The National Commission report provides new information to show that public as well as private institutions have felt the impact of the financial crisis; indeed, in some cases, they have been even harder hit.[6]

Thus, we can concur that financial distress among instiutions of higher education has been serious and widespread. The question we must now ask is: What about the future? Are the financial prospects for higher education as dismal as they have been depicted? Recent analyses do not provide a solid basis for forecasting these prospects. When we take another look we may not find the outlook so bleak.

Shortcomings of recent analyses of financial distress

One shortcoming of recent analyses is a failure to recognize that education, as other industrial sectors, experiences fluctuations over time. It has fluctuated in the past; it is likely to do so in the future. This period of distress is not unique, except in severity.

Activity in the education sector is characterized by fluctuation: in enrollments, aggregate credit hours, expenditures, revenues, market values of endowments, endowment income, current fund balances, and so on. We would have a better understanding of the financing of postsecondary education if we paid more attention not only to trends but also to cycles in educational activity—cycles analogous to, and perhaps even associated with, business cycles in the general economy. Not only do the recently published studies cover relatively short periods of time, but also they make practically no attempt to relate the trends and cycles in the educational sector to trends and cycles in the general economy. Typically, the analyses deal with the period from around 1967 or 1968 to the very early 1970s, a period which corresponds roughly with the slide from a peak to a trough in the last general economic cycle. By extrapolating trends in the current fund operating deficits from a cycle peak to a trough rather than through equivalent points on the cycle, we could easily doom ourselves or, at least, we could produce an unrealistically pessimistic forecast of the financial outlook.

Another shortcoming of recent financial analyses is that they overlook the effects in the policy of time lags: lags in getting hard data on where we are (or more precisely on where we have been), lags in assimilating the meaning of these data, lags in deciding what to do in response, and lags in taking action.

These lags in information, response, and policy action in higher education may add up to as much as three, four, or more years. Thus, it is conceivable that educational finance policy recommendations could be entirely out of phase with the changing realities.

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[6] "Financing Postsecondary Education in the United States," Chapter 5.

Is it really true that tuitions must be raised because the students and their families are the only remaining source of increased revenues? The possibility of a policy lag phenomenon in generating tuition recommendations from trend data on revenue sources is sufficiently real and important to require that we update and then continuously monitor these trends to assure that policy actions are appropriately timed.

To assess the income prospects for colleges and universities, we should first look at the most recent data on each of the major sources of revenue interpreted in light of its historical time pattern; then attempt to develop some understanding of the forces shaping that time pattern, and finally make at least a rudimentary projection of the future level of support from this source.

Time patterns of sources of revenue

Charts and tables to illustrate and document these time patterns, are arranged in sequence in the Appendix.

An examination of data on the sources of revenue for higher education reveals that the aggregate income stream (Chart 1) is actually made up of sources (Charts 2–12) that exhibit three different kinds of time patterns, which are basically the same as one finds in analyses of business cycles in the general economy: smooth, stable, long-term trends; cyclical swings; and unpredictable, destabilizing shifts.

We can describe each major source of financial support, grouped according to its time pattern as follows:

1. *Long-term trends.*—Tuition has increased in a stable and virtually unbroken upswing over the years (Chart 4). Gross tuition—that is, tuition before student financial assistance has been netted out—has grown steadily as a share of total institutional revenues in both the public and the private sectors.

State and local appropriations have also swung upward in a strong, and generally smooth, trend with only occasional slight dips over the entire period since the late 1940s (Chart 5). If we judge by the number of dollars appropriated in relation to program objectives—a more relevant operational criterion of adequate funding than is the percentage of state budget allocations—then we must conclude that support at the state level has not fallen off. In fact, states in the aggregate have expanded support for higher education recently at increasing rates. In a number of cases, individual institutions have been allocated insufficient support because they must now share appropriations with a larger number of institutions (particularly with new two-year colleges and with private institutions receiving public support); total enrollments have grown (though at a slower rate than in the previous decade); and the dollar has been eroded by inflation. Though real support per student may have declined in some instances, this decrease is at least in part attributable to a failure on the part of the institutions and of state budget agencies to foresee, plan, and budget for sharply rising costs rather than to active withdrawal of support by a public grown hostile to higher education. Further, new requirements for greater accountability for both the public and private schools should be regarded as general and healthy requirements, rather than as punitive measures against higher education.

2. *Cyclical swings.*—A significant amount of support for higher education has traidtionally come from sources which are directly affected by general economic activity; consequently, such support tends to be cyclical in nature (Charts 6–11). Individual gifts—by both alumni and nonalumni—and corporate gifts are closely related to corporate profits and to the market values of securities. Thus, the leveling-off of such support in the late 1960s may be explained as easily by the sideways movement in corporate profits over the period 1966 to 1971, by changes in the tax laws,[7] and by other economic conditions exogenous to higher education as by businessmen's disapproval of student activism, an interpretation offered by some observers.

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[7] Specifically, the changes in the tax laws included (1) the imposition of a 10 percent surcharge on corporate and individual income taxes in mid-1968 through 1969 and a 5 percent surcharge in 1970 that increased the effective tax rate, thus reducing the net cost after taxes of voluntary contributions; and (2) revision of the rules for valuing gifts-in-kind for the purpose of making deductions from market value to cost. The impact of this change in valuation may have been to reduce the reported dollar value of gifts-in-kind annually by as much as $10 million—that is, by as much as one-third to one-half—while the actual flow of gifts may have been unchanged. See: Council for Financial Aid to Education, *1970 Corporation Support of Higher Education* (New York: CFAE, October 1971), p. 20.

A sharp cyclical upswing of corporate profits in 1972 and 1973 corresponds with marked increases in those years of voluntary support for higher education.

3. *Unpredictable shifts.*—The sources that have proved least predictable and most responsible for year-to-year variations in support for higher education are the foundations and the federal government.

Although foundation support has doubled in the last ten years from about $200 million to over $400 million, the support has been uneven; as a matter of fact, the foundations contributed less to higher education in 1970–71 than they had six years earlier, in 1964–65. Some of the decline is attributable to the foundations' expanding their social concerns to new areas, primarily to programs for the inner city. In the last academic year, 1972–73, however, there was a sharp resurgence of foundation support to colleges and universities, amounting to a $50 million increase over the preceding year (Chart 8).

Federal support for higher education rose rapidly in the early 1960s, only to level off in the second half of the decade, and even to decline in 1970 (Charts 13–18). This marked relative withdrawal of federal support corresponds to the critical period around 1967–68, when colleges and universities were moving from black ink to red ink. But again, federal support for the collegiate sector of postsecondary education has begun to increase this year over last, after five years of extremely little net gain.

With respect to each of the major outside sources of support for higher education, the most recent data show that: State support is increasing; corporate profits, which affect individual and corporate giving, are up; foundation support has started to increase sharply once again, exceeding earlier peaks; and Federal support is increasing at a faster rate than experienced in the last half decade.

In summary, the prospects for increased revenues for higher education appear brighter now then the earlier published reports have indicated. It may not be a time for despair, retrenchment, and shifting more of the cost of education to the students but for hope and planning, to make future realties out of present possibilities.

Narrow perspective on the causes of financial distress

Still another shortcoming of recent analyses is that their perspectives on the causes of financial distress in higher education have been too narrow. They have looked for the causes of distress primarily within the higher education domain itself and not beyond it.

Two major causes used by the analysts to help explain the financial crisis are: (1) declining rates of enrollment growth, and (2) rapid increases in the cost of higher education, increases which exceed the general rate of inflation and which are attributed to low productivity. Let us look more closely at each of these factors.

Declines in the rate of enrollment growth.—The proponents of increased tuition argue that, because of enrollment booms in the 1960s, colleges and universities expanded their staffs and facilities and then were left with large fixed outlays of funds that they could not continue to meet in the face of slackening enrollment growth (Charts 21–23). We have to admit that educators have tried to have it both ways: We used to claim that booming enrollment causes a financial crunch, and now we claim that slackening enrollment causes a financial crunch.

But neither simple assertion about the direct relationship between enrollment trends and financial strains is altogether satisfactory. Many institutions began to feel the crunch several years before enrollment growth began to decline; moreover, during the same years, many institutions experiencing continued sharp rises in enrollment also suffered from straitened financial circumstances. It could even be that financial distress is a cause, rather than an effect, of enrollment decline if fewer students enroll because of resultant tuition increases. At any rate, it is clear that we need a much better understanding of the impact of enrollment on financing.

Costs and productivity in higher education.—Part of the explanation offered for the financial distress of higher education relates to costs and productivity. The advocates of higher tuition observe that the annual increase in per-student costs exceeds the general rate of inflation. The sharper acceleration is attributed largely to the absence of major improvements in productivity within higher education, in turn a function of the labor-intensive character of education that makes productivity increases more difficult to achieve than in industry where mechanization is possible.

The analysis proceeds on the basis of the following syllogism, implicit in the argument: Because of the labor intensity of higher education, there has been very little increase in productivity; educators' salaries are going up; and therefore, the cost of education must go up.

This is followed by the assertion that, while costs have gone up, the social benefits of education have not; and therefore more of the cost of higher education should be shifted to the private beneficiaries. Students and their families constitute the only other major source of the funds available to pay for lagging productivity (i.e., cost increases per student in excess of those generated by inflation) and for quality improvement where improvement means increased costs.[8]

Since the recommendations to increase tuitions are based in part on this perception of "stagnant productivity" in higher education, it is time to take another look at the underlying concept of productivity. The conventional wisdom on this subject has remained unexamined for too long.

I would argue that it is not a matter of our having measured productivity in higher education and found it not to have increased; more accurately, we have never measured productivity in higher education.

Productivity is simply a measure of output per unit of input. The unit traditionally used to measure the output of higher education is the credit hour. A broader view of education might require that we treat the credit hour as a measure of input rather than of output. But if we persist in using it as a measure of output, then we should at least recognize that a credit hour is, by definition, a fixed measure. A "credit hour" is to the education industry approximately what a "vehicle" is to the transportation industry. If we measured the output of the transportation industry over time by counting bicycles, automobiles, propeller airplanes, and jet airplanes all as "vehicles," and if we accepted the vehicle count as a measure of output and rejected what we know about increases in passenger miles traveled, then we might well be distressed over "stagnant productivity" in the transportation industry. Yet the 180 credit hours that it took a student in the 1920s to earn a degree in engineering to help design the assembly line for mass producing the Model T is the same 180 credit hours that it takes a student in the 1970s to earn a degree to help design the space vehicle that flies us to the moon.

The "stagnant productivity" argument is a ragged and incomplete explanation for the cost increases in higher education, increases which are, however, sharper than the rate of inflation in the rest of the economy. A more complete explanation would at least allude to a number of other developments that have affected institutional expenditures: e.g., (a) expansion of the coverage of minimum wage legislation to include employees of (nonprofit) educational institutions, (b) increases in the levels of these minimum wages, (c) extension of collective bargaining into higher education for both academic and nonacademic employees, and (d) implementation of the array of federally mandated programs including affirmative action and occupational health and safety.

Approximately three-quarters of the operating budgets of colleges and universities are expended for the wages and salaries of academic employees who teach and do research and of nonacademic employees who work in offices, cafeterias, and hospitals. When I started graduate study in the mid-1960s, the nonacademic workers at the eminent university where I matriculated were paid 85¢ an hour at a time when the average wage of manufacturing employees was $1.80 in that state and $2.60 in the nation as a whole. Many of the university's nonacademic employees were hired only for the nine-month academic year and faced forced summer layoffs. Thus, their jobs took on aspects of seasonal employment, the effort from which yielded an annual income below the poverty minimum. The extension of minimum wage legislation to these employees helped to redress partially these imbalances in income. Since then, in addition, collective bargaining began to spread (although at uneven rates) among educators, whose annual income may in the past have been considerably lower than that of their counterparts in industry with equivalent education, experience, and responsibility.

The rapid increases in higher educational costs should be seen, at least in part, as the result of more equitable income and social policies and not exclusively as the consequence of low productivity. Indeed, were we to hold to the limited view of productivity in education, we would have a strange paradox to explain: Increases in labor and capital do not, by themselves, account for the bounding long-term rate of economic growth in this country: there is a vast residual growth.

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[8] Committee for Economic Development, *Management and Financing of Colleges*, p. 16.

usually explained by improvements in technology and by education. Thus, we have a situation where productivity is said to have increased very little; but, at the same time, education is used to explain a substantial amount of the increase in productivity in the national economy as a whole—either directly, or indirectly through improvements in technology.

Financial prospects

What, then, are the financial prospects for higher education? In the last several years, a fragile stability in the financial conditions of institutions of higher education has been achieved not by increasing revenues but by holding down costs.[9]

In the next several years, however, financial conditions are likely to be determined by an opposite set of forces. The prospects for increasing revenues are much brighter now than they have been in the recent past. On the other hand, management cost cutting by institutions may be approaching a point of negative returns at the same time that inflationary pressures are becoming overwhelming. In short, the near-term financial prospects depend on either the nation's controlling inflation or the institution's adapting to it. But inflation cannot be used to argue that students should bear a *more* than proportional share of cost increases.

Conclusions about the analysis of financial distress

With respect to that part of the case for higher tuitions that is based on an analysis of financial distress and its causes, I would argue that:

1. The long-term prospects for increased revenues are brighter than they have been depicted. Consequently, we may not, in fact, be faced with a situation where the only alternative is to pass an increasing share of the costs on to students and their families by raising tuitions.
2. The causes of sharp cost increases in higher education are located not just within the educational sector itself but also in the general economy.

In searching for explanations for the financial distress in higher education, what the analysts found depended on where they looked. They looked within the educational domain both for the causes of and the solutions to the financial distress.

If we broadened our perspectives we might find underlying causes of the distress in: War, which forced cruel choices among domestic priorities; general inflation; cyclical downturn in corporate profits resulting from general business conditions; Federal reassessment of the role of research; social commitment to equal access to postsecondary educational opportunity, a commitment that was not accompanied by sufficient public funds to achieve the goal, with the result that educational institutions have been trying to make up part of the deficit with educational funds; income policies, including minimum wage legislation and collective bargaining, and now even the energy crisis, which, by adding unexpectedly to costs, threatens to topple arduously regained budget balances.

At the very most, these causes of distress can be used to argue that students and their families might be asked to bear a proportional share of the cost increases. They cannot, I believe, be fairly used to ask them to bear a more-than-proportional share of the cost increases.

EQUITY AND EFFICIENCY

The second major argument advanced for increasing tuition concerns equity and efficiency in the allocation of public support for higher education. The advocates of increased tuition contend that, even though government spending has been greatest for low-income students, much of the public support for higher education accrues to middle- and high-income students; consequently the distribution of subsidies is inequitable. In addition, they say, such subsidies are inefficient because these students would go to college anyway; the subsidies do not affect their decisions. Thus, if government aid continues to be distributed as it is now, we cannot make substantial progress in achieving greater equality of educational opportunity.

They propose to correct this "faulty distribution" by increasing the proportion of direct federal grants and loans to students according to their ability to pay and, at the same time, by raising tuitions at public institutions. This strategy, they claim, would more effectively target government aid to those who need it most and thus improve equality of educational opportunity. In addition, a large part of this direct student aid would go to colleges and universities in the form of higher tuitions; thus, institutional revenues would be increased.

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[9] Earl F. Cheit, "The New Depression in Higher Education" (New York: McGraw-Hill Book Co., 1971); "The New Depression in Higher Education—Two Years Later" (New work: McGraw-Hill Book Co., 1973); "Colleges Make Progress in Curbing Cost Rise," New York Times, January 16, 1974.

These arguments are both plausible and appealing to our egalitarian values. But, again, we should look closely at the data and the value judgments underlying these propositions.

The goals of higher education

Of the many goals associated with higher education, two are clearly central: (1) the educational goal of creating the capacity to deliver educational services, and (2) the social goal of assuring equal opportunity to benefit from those educational services. These two goals are separate and distinct, but some advocates of higher tuition confound them: Thus, the support intended to create educational capacity and the support intended to assure educational opportunity are lumped together, and the distribution of the combined support is evaluated against the single objective of assuring equal opportunity.

The proper question is not whether all aid is effectively targeted to achieve the social goal of equal educational opportunity. What we need to ask is: What is the proper commitment of resources—and by which level of government—intended to create educational services, and what is the proper commitment of additional resources intended to assure opportunities to benefit from those services?

Many of those who argue that we should raise tuitions and redirect the added private resources so generated conceive of the policy alternatives in terms of fixed amounts of resources which are channeled either to students or to institutions. Students and institutions are viewed as adversaries in a zero-sum game.

There is a basic distinction between the educational goal of creating educational services and the social goal of achieving equal opportunity in this country. The social goal is broader, extending far beyond education; the resources needed to achieve it should come from general revenue sources, and not be diverted from educational goals or generated by means of a tax on education.

Redistribution of income

Some analysts explicitly propose raising tuition for the purpose of redistributing income. The additional revenue generated through the higher tuitions paid by unassisted students are to be channeled into aid for needy students. If this redistribution takes place within individual institutions, then it involves only those families who happen to send a student to those colleges, not the population as a whole.

To a startling extent, this redistribution is now taking place by means of the tuition increases that have already occured. There exists at present a large student aid subsidy gap: That is, the amounts of student assistance awarded by institutions far exceed the amounts of income channeled through them specifically for this purpose (Charts 24–26). Since the inception of the major programs of assistance for low-income students in the mid 1960's, the student aid subsidy gap has amounted to a staggering $2 billion. In 1971–72, the most recent academic year for which we have data, the subsidy amounted to more than a half billion dollars at all institutions and more than a quarter of a billion dollars in private institutions alone. Because of their high tuitions, private colleges and universities provide a relatively large amount of direct assistance to each low-income student who enrolls. Thus, the aggregate student aid subsidy gap is higher at private institutions than at public institutions.

If the amount of the assistance that private institutions provide from their educational funds is divided by the total enrollment at private institutions, we find that, in 1971–72, the subsidy gap was—on the average, across the nation—about $125 for each and every student enrolled. This means that, if adequate funds had been provided from public sources to support students who needed additional assistance, tuition could have been reduced $125 that year for every student enrolled at a private institution, whether assisted or unassisted. Over the four years conventionally required to earn a baccalaureate, making up the subsidy gap would result in a $500 tax on every student who now attends a private institution.

There is a similar, but smaller, tax imposed on the students who now attend public institutions. The proposed strategy of raising tuitions at public institutions and redirecting the added revenues into student aid, would, in effect, introduce a similar redistributive system into the public institutions. Financial reform lies in the direction of removing the special tax from the students enrolled in private institutions, rather than imposing it on the students enrolled in public institutions. The resources needed to achieve equal educational opportunity ought to be provided from general revenues and not from an educational tax on the students.

Intergenerational transfers

There is, I believe, a central flaw in the analysis of those who have concluded that, because of a current maldistribution of aid, tuitions should be increased and support reallocated among income groups in order to achieve greater distributional equity. The flaw was first noted by Dr. Joseph Pechman, who points out that the costs and benefits of any plan for financing higher education cannot be assessed at a single point in time because the costs and benefits occur over time.[10]

Consequently, in devising plans for financing higher education, we need to determine not only who should pay but also when they should pay. The tuition issue is then transformed: It is no longer a question of how much the students should pay and how much they should be subsidized; the question becomes whether they pay more now or later.

Because investments in education are among the largest an individual makes in a lifetime, and because the benefits of the education accrue over that lifetime, most people generally agree that the payments for education should be spread over time. This can be done either through the mechanism of high tuition coupled with income-contingent loans or through the mechanism of low tuition coupled with income-contingent taxes.

In both cases, the education is financed by intergenerational transfers of resources. The transfers can be made by means of private mechanisms, whereby institutions charge high tuitions that are paid out of the accumulated savings of the parental generation and/or out of loans to students that will be repaid from future earnings. Or, the transfers can be made by means of public mechanisms, whereby institutions charge low tuitions and the difference between tuition and the full cost of education is financed with the tax payments of the parental generation. Then the costs of the low-tuition benefits are subsequently repaid out of taxes on the future earnings of the student generation.

The intergenerational nature of the transfer of resources is essentially the same whether the transfer mechanism is private or public. Using either mechanism, there are transfer costs. Given the imperfections in the capital market for investment in education, however, interest costs on private loans to finance education are exceedingly high, notwithstanding government guarantees and a new secondary marketing association for student loans. These interest surcharges on private educational loans result in substantial leakage out of the private intergenerational transfer system for financing higher education. It may simply be easier and less costly to make the intergenerational transfers in the public rather than the private sector.

Historically, as access to education has broadened, the intergenerational transfer mechanisms for financing it have shifted from the private to the public sector: first for elementary education and subsequently for secondary education. There is no inherent reason why the financing of public postsecondary education should differ in essential ways from the financing of elementary or secondary education. Advocates of increased tuitions object, however, that a public tax transfer system to support low-tuition public higher education is inequitable because some people who do not benefit from the educational opportunities are taxed. Such concerns did not play a determinative role in the political decision to provide tax support for public elementary and secondary education. Some have pressed the distinction that elementary and secondary education is compulsory whereas postsecondary education is voluntary. But this distinction does not reach the situation of the childless family who must pay taxes to support an elementary educational system from which they derive no immediate, direct benefits. Yet a political judgment was made that the benefits of the no-tuition elementary educational system to society as a whole outweigh the inequities which this particular form of financing impose on childless families or on families who choose to send their children to private schools. If those inequities to nonusers are, however, still deemed to outweigh benefits to society of higher education supported by general tax revenues, it is possible to conceive of alternative financing plans embodying concepts akin to special education user taxes.

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[10] Joseph A. Pechman. "The Distributional Effects of Public Higher Education in California." Journal of Human Resources, 1970, 5(3), pp. 361–70.

Full access to higher education is by no means a reality. But we may question whether that goal will be reached faster if we raise tuitions and hope for offsetting increases in student assistance, or if we keep tuitions as low as possible and work to broaden access, considering not only the economic but the social and psychological needs of those now excluded.

Longitudinal equity

In the economics of public finance, two standards are used to judge the fundamental fairness of spending and taxing programs. They are known in the trade as "horizontal equity" and "vertical equity." Horizontal equity means treating people in similar circumstances in the same way. Vertical equity means treating people in different circumstances differently.

I think we may add to these standards a concept of longitudinal equity, intended to convey the idea that people should be treated fairly over time. This concept should not be used as a conservative argument against any change in the historical way of doing things, or against reform designed to introduce greater current vertical or horizontal equity. Fair treatment of people over time is, however, a relevant consideration in weighing the net benefits resulting from proposed changes.

The concept of longitudinal equity would apply to the tuition debate in the following way: As I mentioned earlier, the financing of education is spread out over time, with resources being drawn either from the previous generation or from the future generation. Historically, our system of low-tuition public higher education has been financed by the parental generation for each succeeding student generation. Over time, increasingly wealthy parental generations have provided more and more resources to the student generations, and access has broadened to the point where we are approaching universal access for able students from upper- and middle-income families.

Now, just at the time in history when we are making serious attempts to broaden access to low-income students, we change the rules of the game. We propose to shift a larger share of educational costs from the parental generation to the student generation; the students must bear these costs either now or later, from future income.

Many of us obtained our undergraduate degrees for no or low tuition and a few dollars a semester in student fees. But now—when it is our turn to help pay for the education of the upcoming generation—we renege and shift more of the burden to the students. It would be "fair" to devise a financing system based either on low-tuition, parental-generation taxation or on high-tuition, student-generation borrowing. The inequity arises at the point in time when we switch systems, in this case shifting burdens forward from the parental to the student generation. It would seem that the current student generation, particularly the lower-income students, could be justifiably outraged.

Alternative ways to a achieve distributional equity

The concern for distributional equity in comparing plans for financing postsecondary education relates to fairness in sharing the burden of costs and the value of benefits among people in different income groups. Equity depends on who gets the net subsidies (that is, the benefits minus the costs) in comparison with who we think ought to get them.

The net educational subsidies received by various income groups at a particular point in time is a function of the following determinants, for each of which sets of public policies may be devised:

Determinants of net subsidies	*Policy domain*
Educational costs	Educational policies and resource utilization policies.
Student charges	Tuition policies.
Student assistance	Aid policies.
Enrollment patterns by students	Admissions policies.
By income	Access policies.
By type of institution	Retention policies.
Income distribution	Income policies.
Tax rates	Tax policies.

Proposals to raise tuition, even when combined with proposals to increase student aid, focus on a limited subset of the possible policy alternatives designed to broaden access while improving distributional equity. The particular policy domain on which tuition analysts focus in proposing change is more a function of their values and of their assessments of the political feasibility of the various alternatives than of the underlying empirical analysis.

Conclusion

To recapitulate this discussion of equity and efficiency as it is related to the tuition issue:

1. Those who contend that the present distribution of public support for higher education is inequitable and inefficient because too large a proportion of the subsidy goes to middle-income and upper-income students rather than to low-income students fail to make a clear distinction between the educational goal of providing educational services and the social goal of assuring equal opportunity to benefit from those services; the distribution of costs and benefits should not be evaluated solely against the latter goal.
2. Raising tuitions and channeling the added revenues into student aid introduces a system of income redistriubtion that operates within the educational system and not across the population as a whole. Raising tuitions is an inefficient and inequitable way to achieve more equal income distribution.
3. Financing education through public mechanisms for intergenerational transfer of resources may, on balance, be considerably more fair and efficient than financing through private mechanisms.
4. We need to pay more attention to equity as it applies over time if we shift relatively from tax-based to loan-based financing.
5. The recommendations of the proponents of increase tuition for achieving equal opportunity do not flow directly and inexorably from their empirical analyses. But then neither do those of the low-tuition advocates. Both positions are, rather, a function of the values of those who formulated the recommendaions.

IMPROVEMENT OF THE EDUCATIONAL SYSTEM

The third argument for increased tuitions maintains that the educational system would be improved (1) if the competitive position of the private institutions was strengthened by reducing the tuition gap between the public and private sectors, and (2) if the whole system were made more responsive through pricing mechanisms where the student as consumers express their preference with tuition payments in more competitive educational markets. Let's look at the line of reasoning.

Reducing the tuition gap

The financial plight of private institutions is a matter of very real concern. But proposals to help private institutions by increasing tuitions at public institutions, thus reducing the tuition gap, focus too narrowly on competition for enrollment as the primary source of their distress.

In assessing the probable effectiveness of the higher tuition recommendations in helping the private schools, we might want to consider additional facts that relate to differences between the public and the private educational sectors and that would lead, I think, to the conclusion that the issue is far more complex than simple competition for enrollment.

First, graduate student enrollments are proportionately half again higher in private than in public universities. About 30 percent of all students enrolled in private universities are graduate students, as compared with about 20 percent in public universities. Consequently, recent cutbacks in federal support of research and training at the graduate level may well have had a more dire effect on private institutions than on public institutions generally. Raising tuitions at public institutions as a response to this problem may be as likely to spread distress as to spread enrollment.

A second consideration is that tuition levels are, in general, directly related to institutional size: The larger the school, the lower the tuition. These differentials may be cost-justified. Private institutions tend to be smaller than public institutions; and in many cases their smallness is deliberate, the fulfillment of traditionally held beliefs about the educational and social values of a small college.

If small size is a worthwhile educational objective from the point of view of society, then that objective may best be supported directly by awarding assistance to small institutions or to the students attending small institutions rather than indirectly by raising tuitions at the larger, public institutions.

With respect to competition for enrollment, market shares depend on how you define the market; private universities have held their share of university enrollment, and private four-year institutions have held their share of four-year enrollment, a bit more successfully than either has held its share of total enrollment. What has happened is that the private institutions have not participated in the rapid growth of the two-year college educational market.

Educational "markets" are segmented by different types of institutions and linked, but they also have a geographic delimitation—they are not national markets. Except for a few prestige institutions with the power to draw students from all over the country, most educational markets are regional, state, or even local.

A national policy proposal to increase tuitions at public institutions in order to reduce disadvantage in price competition facing private institutons does not take into careful consideration the federal nature of higher education in this country. We have, in fact, fifty different state situations. Private enrollments range all the way from 60 percent of all enrollments in Massachusetts, to zero in Wyoming and less than 5 percent in four other states. Further, private enrollments are highly concentrated geographically. Two states—New York and Massachusetts—presently account for one-fourth of all private enrollment; these two states and four others—Pennsylvania, California, Illinois, and Ohio—account for one-half of all private enrollments. From a national standpoint, it does not seem reasonable to raise tuitions in public institutions in Wyoming to help private institutions in Massachusetts. From a state standpoint, it does not seem reasonable to raise tuitions for, say, the 85 percent of the students enrolled in public institutions to help private institutions that enroll 15 percent. We ought to be able to devise more carefully honed policy instruments.

Improving responsiveness

Judgments about how responsive institutions are to their constituencies often differ between the increased-tuition and the low-tuition proponents. The increased-tuition proponents more frequently characterize institutions are relatively unresponisve. They seek to enhance responsiveness by pricing education closer to full cost and relying to a greater extent on market mechanisms to permit students to express preferences.

The applicability of the market model to higher education is a subject that requires another complete paper. Let me simply observe here that the students in whose interests this plan is supposedly advanced, and who have the keenest interest in the quality of their education, are among the most vociferous opponents of raising tuitions. They may be knowlegeably skeptical about assurances of increased student aid, or they may feel that they can develop better ways to express their educational preferences than through pricing.

IDEALIZED REFORM PROPOSALS

There is a tendency among the advocates of higher tuition to compare an idealized version of their reform proposals against a more realistic appraisal of the existing system with its admitted shortcomings.

We must work ardently to improve the educational system, but the one we have is basically workable; and along some dimensions it is even extraordinarily successful. Real losses would be inflicted if tuitions were raised and the decision is proved to be wrong. Therefore, we should proceed cautiously.

Financial aid

Recall, for instance, that student based assistance programs were proposed as alternatives to institutionally based programs on the grounds that they simplify the awards of aid and make them more equitable. I think we are surprised now to discover how short a time it took to bureaucratize BOGs; how the administrative regulations are accumulating into thick volumes; how the certainty of the awards is becoming the inflexibility of the awards; how the simplicity of the award calculation is becoming the inequity of the irrebutable presumption that the expected family contribution will in fact be available to the student. We are surprised now about how difficult it is to answer questions of fairness in the treatment of assets and in the definition and treatment of dependent or independent students—questions which may even end up in the courts in constitutional cases testing equal protection arguments. And finally we may be surprised at how a program devised in part to help the private institutions—which awards a little more but not really enough aid—may actually be hurting them as well as hurting two-year public institutions while helping four-year public institutions. We may be surprised by the possible adverse impact on tuition levels at public institutions—in states where they must raise tuition levels as the only way to capture federal assistance funds awarded on a formula based in part on educational cost. And we may even be surprised to discover a possible shift in the locus of postsecondary educational decisions toward the federal from the state levels of government.

If that system of support had been the one we started with some years back, I could well imagine a current reform movement the central tenet of which would be that low tuition, together with an income policy to aid low-income students, is a simpler and more equitable system for financing postsecondary

Such a low-tuition financing plan might even be advanced as much more attractive to the voters. We are only now beginning to understand some of the political dimensions of the tuition debate. For the purposes of developing student financial assistance programs, middle-income families are categorized as families who do not need financial aid to send their children to college. They are excluded from programs of direct financial assistance to low-income families, yet they provide the taxes to support the assistance programs. Strong opposition is growing to expenditures for those programs which they support through their taxes but from which their children are excluded. Support for low tuitions may be a more politically viable alternative.[11]

Income-contingent loans

Similarly, I think we have been presented so far with an idealized version of income-contingent loans to students to finance postsecondary education. But there are, it appears, two basic real-world problems with them: the banks, who are the lenders, don't like them; and the students, who are the borrowers, don't like them.

Now remember that the income-contingent loan is usually offered as part of a program to permit higher tuition costs to be borne by the student, who consequently carries substantially larger amounts of debt. To reduce the burden of annual repayment of principal and interest, the term of the loan is converted from short-term to long-term. Then, to mutualize and reduce the risk of the long-term repayment, the repayment is made income contingent.

But the banks, which currently supply by far the largest proportion of educational credit, are themselves short-term borrowers and short-term lenders. As Robert Hartman has so insightfully pointed out, extending the term of the loan is not just a matter of simple detail; it probably is a matter of finding new longer-term sources of educational credit.[12]

As to students, what evidence we have indicates that students vastly prefer short-term to long-term credit, even if the short-term loans carry a higher interest rate. Students may not be altogether indifferent to the fact that repayment of a loan of, say, $10,000 at 8 percent over a thirty-year period involves a total repayment of around $26,000–$10,000 principal and $16,000 interest. And who knows if the discount rates economists use to compare the present values of the original loan and the subsequent total repayment reflect students' real time preferences between current consumption and future consumption.

This is not to argue that new ideas cannot be made to work. It is rather to argue that improving the capital market for investment in education is more complicated in the real world than the recent analyses would lead us to believe. The student loan market is not, in fact, now able to meet much of the pressing need for resources for postsecondary education.[13]

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[11] Remarks of James G. O'Hara, Chairman, Special Subcommittee on Education, on the House Floor, 2 October 1973.

[12] Robert W. Hartman, "Graduate Student Support." In Federal Policy Alternatives Toward Graduate Education, Washington: National Board of Graduate Education, March 1974.

[13] It might be instructive to observe, for instance, that going from short-term loans to long-term loans a small portion of which are just becoming available to low-income homebuyers, took more than thirty years—from the 1934 creation of the federally insured mortgage (FHA) to the 1938 creation and the 1950s expansion of the secondary mortgage market (FNMA), to the 1968 creation of the special agency (GNMA) to meet additional needs for subsidy for low-income borrowers. And in borrowing to finance homes it is easier to develop a loan system because you have physical collateral for the loan which you do not have in borrowing to finance education.

The analysis of income-contingent lending has taken place so far within the education sector. We might want to look at its dynamic interactions with other sectors. What happens, for instance, when a young man with a Ph. D. and a $10,000 educational debt marries a young woman with a Ph. D. and a $10,000 educational debt? What kind of reception will they get from the mortgage credit analyst when they go out to buy a house and put down on the loan application that they already have an overhang of $20,000 debt? The impact on homebuying is not likely to be irrelevant or inconsequential.

If we really shift to debt-financed postsecondary education, we must pay more attention to questions about how requirements to borrow—which may fall disproportionately on students from middle-income families—would affect the relative distribution of income and assets of those students, in comparison with the current situation of subsidized low-income students or parentally financed upper-income students.

In making that comparison, we might want to take a look at the tax structure to ascertain whether investment in people would be treated fairly in relationship to investment in capital goods. We might find, for instance, lower capital gains treatment of some returns from investment in physical capital and a higher income tax treatment of all returns from investment in education. And we might find that the expenses of creating the asset are deducted from the income from physical capital but not from that of educational capital; or that the value of physical capital is recoverable in depreciation allowances, but that the value of educational capital is not.

SUMMARY

In summary, I would argue that: The case for *increasing tuition rests on* analyses of the causes of and the solutions to financial distress in postsecondary education which are too narrow in perspective; idealized rather than realistic versions of the changes that implementing their proposals would bring about; and incomplete analyses of the issues with respect to equity in the tuition debate.

Consider, for a moment, the bizarre implications for social justice when the educational system is used as a system for redistributing income and college admissions officers, together with financial aid officers, functions as arbiters among families as to who is taxed and who is subsidized. The problem is that we already have a system that works that way. But decisions about the proper distribution of income belong in the public domain and not within the education system. Reform lies not in the direction of increasing these effects by increasing tuitions and redistributing the added revenue as student assistance but rather in reducing these effects.

The case for less-than-full-cost tuition rests on recognition of the social benefits of postsecondary education; and finally

The case for low-tuition rests on: Preference for public rather than private mechanisms for spreading the costs of education over time; skepticism about the basic superiority of increased use of loan-financing over tax-financing for postsecondary education; conviction that the educational system should not be used as the vehicle for income redistribution; and belief that greater and more equal educational opportunity can be secured through low tuitions rather than through high tuitions offset with student assistance to low-income students.

The recommendations to increase tuitions at public institutions, conceived and carried out with a mentality of retrenchment, may be untimely. They are certainly self-limiting and self-fulfilling. Increased-tuition proponents have defined the tuition issue in terms of reallocating a relatively fixed share of national resources.

The tuition issue should be redefined in order to consider in broad terms the place of postsecondary education among national priorities.

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APPENDIX

TABLE 1.—CURRENT FUNDS REVENUES AND EXPENDITURES OF INSTITUTIONS OF HIGHER EDUCATION, FISCAL YEARS 1947-48 TO 1971-72

[In thousands of dollars]

Year	Revenues	Expenditures
1947–48	2, 037, 770	1, 894, 464
1949–50	2, 390, 079	2, 259, 941
1951–52	2, 579, 364	2, 486, 229
1953–54	2, 966, 264	2, 902, 466
1955–56	3, 628, 773	3, 524, 744
1957–58	4, 675, 513	4, 543, 562
1959–60	5, 812, 759	5, 627, 962
1961–62	7, 466, 461	7, 190, 077
1963–64	9, 591, 330	9, 224, 988
1965–66	12, 796, 207	12, 569, 943
1966–67	14, 632, 857	14, 301, 905
1967–68	16, 910, 420	16, 565, 909
1968–69	18, 974, 320	18, 578, 772
1969–70	21, 638, 590	21, 161, 677
1970–71	24, 036, 888	23, 504, 533
1971–72	26, 279, 528	25, 488, 402

Sources: U.S. Office of Education, "Higher Education Finances, Selected Trend and Summary Data "(Washington: U.S. Government Printing Office), 1968, p. 3; U.S. Office of Education, "Financial Statistics of Institutions of Higher Education: Current Funds Revenues and Expenditures 1965-66," pp. 7, 12 and following years: 1966-67: p. 13; 1967-68: p. 11; 1968-69: p. 15; 1969-70: p. 12 and National Center for Educational Statistics, preliminary data, 1973.

TABLE 2

CURRENT FUND REVENUES OF INSTITUTIONS OF HIGHER EDUCATION BY CONTROL OF INSTITUTION, FISCAL YEARS 1961–62 TO 1972–73

[In Thousands of dollars]

Year	Public institutions	Private institutions	All institutions
1961–62	4, 147, 426	3, 319, 035	7, 466, 461
1963–64	5, 368, 679	4, 222, 651	9, 591, 330
1965–66	7, 397, 672	5, 398, 534	12, 796, 207
1966–67	8, 622, 426	6, 010, 431	14, 632, 857
1967–68	10, 412, 055	6, 498, 365	16, 910, 420
1968–69	11, 851, 538	7, 122, 782	18, 974, 320
1969–70	13, 870, 962	7, 767, 628	21, 638, 590
1970–71	15, 644, 733	8, 376, 641	24, 021, 374
1971–72	17, 211, 026	9, 189, 889	26, 400, 915
1972–73	18, 933, 835	9, 861, 137	28, 854, 972

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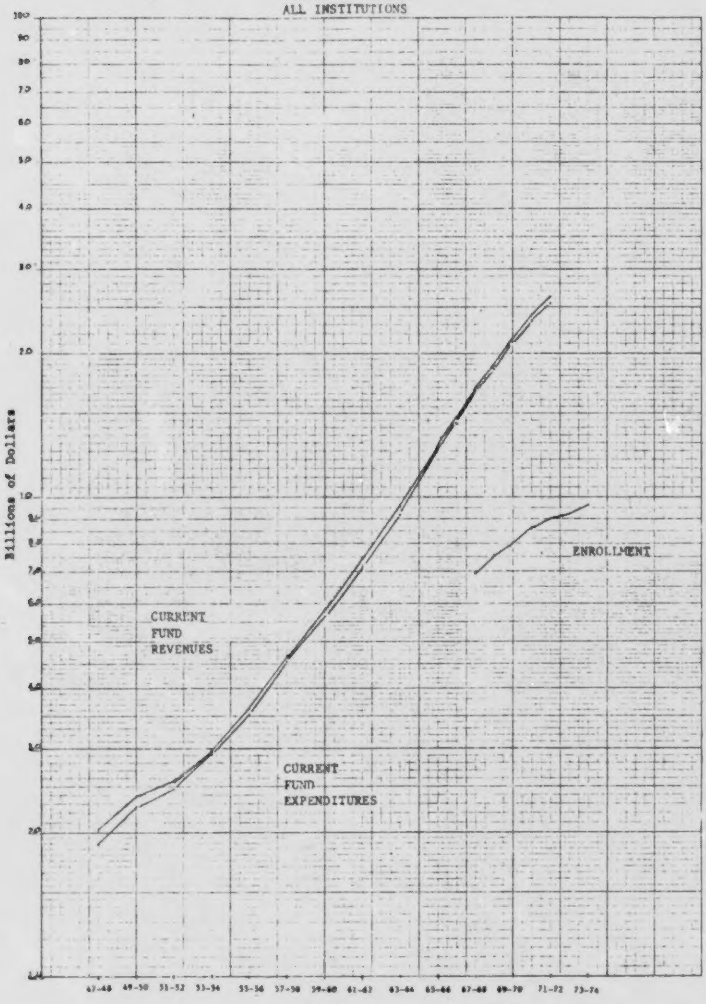
CURRENT FUNDS REVENUES AND EXPENDITURES OF INSTITUTIONS OF HIGHER EDUCATION
HISTORICAL TRENDS
ALL INSTITUTIONS



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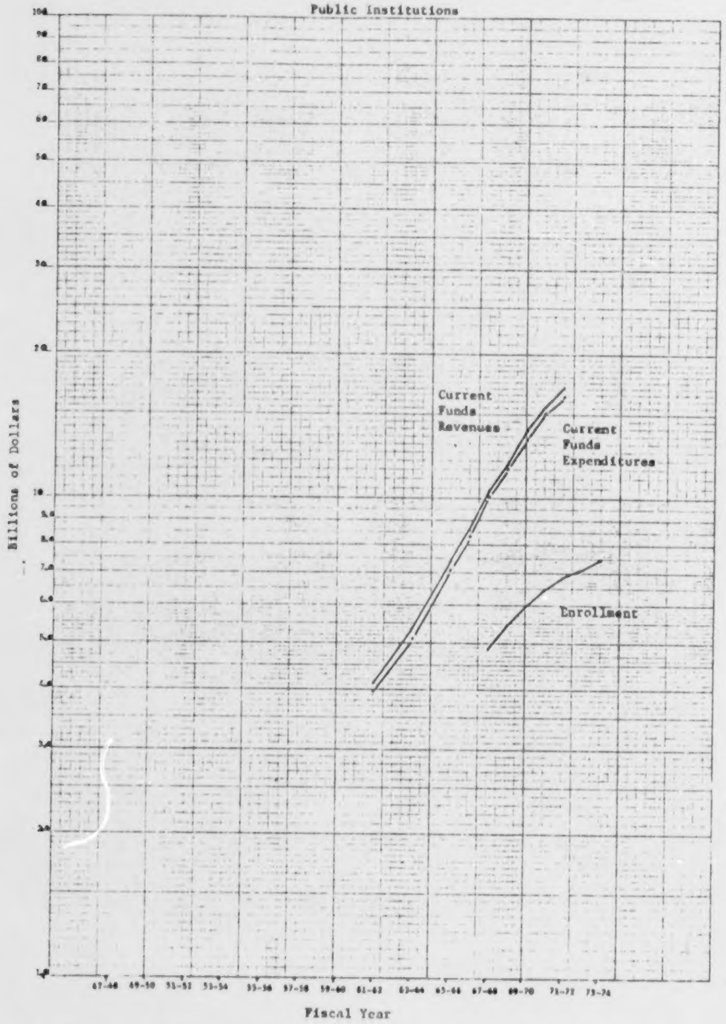
CURRENT FUNDS REVENUES AND EXPENDITURES OF INSTITUTIONS OF HIGHER EDUCATION

Public Institutions



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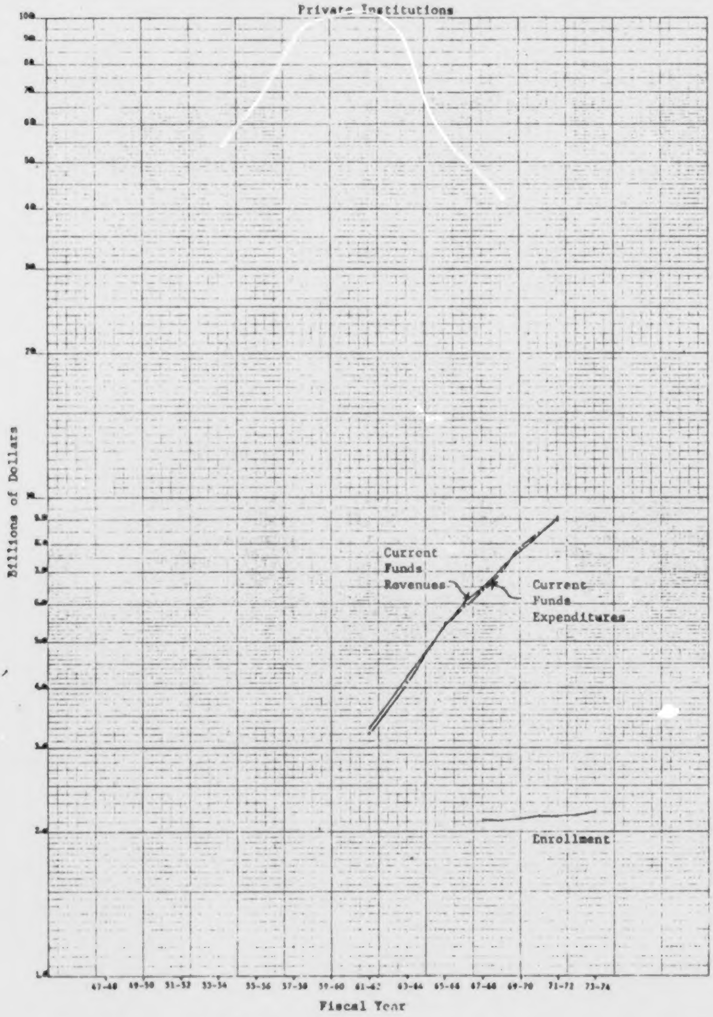
CURRENT FUNDS REVENUES AND EXPENDITURES OF INSTITUTIONS OF HIGHER EDUCATION

Private Institutions



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CURRENT FUND EXPENDITURES OF INSTITUTIONS OF HIGHER EDUCATION BY CONTROL OF INSTITUTION, FISCAL YEARS 1961-62 TO 1972-73

1961-62	3, 967, 556	3, 222, 521	7, 190, 077
1963-64	5, 114, 494	4, 110, 494	9, 224, 988
1965-66	7, 114, 703	4, 455, 240	12, 569, 943
1966-67	8, 361, 457	5, 940, 448	14, 301, 950
1967-68	10, 102, 844	6, 463, 065	16, 565, 905
1968-69	11, 512, 831	7, 065, 941	18, 578, 772
1969-70	13, 349, 667	7, 812, 010	21, 161, 677
1970-71	15, 112, 477	8, 402, 748	23, 515, 225
1971-72	16, 608, 073	9, 110, 461	25, 718, 535
1972-73	18, 329, 379	9, 764, 936	28, 094, 315

Sources: U.S. Office of Education, "Higher Education Finances, Selected Trend and Summary Data" (Washington: U.S. Government Printing Office, 1968) pp. 3, 38-46; U.S. Office of Education, "Financial Statistics of Institutions of Higher ation: EducCurrent Funds, Revenues and Expenditures 1965-66, "pp. 7, 8 and following years: 1966-67: p. 13; 1967-68: p. 11, 1968-69: p. 15; 1969-70: p. 12; and National Center for Educational Statistics, preliminary data, 1974.

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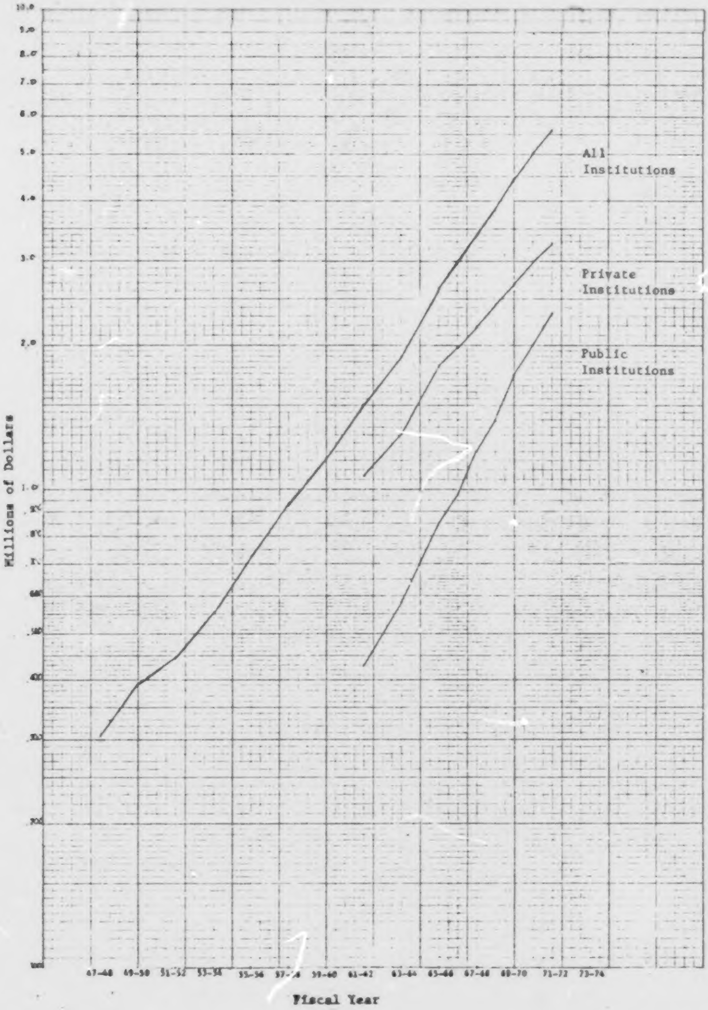
STUDENT TUITION AND FEES



Sources: U.S. Office of Education. Higher Education Finances: Selected Trend and Summary Data (Washington: U.S. Government Printing Office, 1968), pp. 3, 8-9, 38, 40; DHEW's Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965-66, p. 10 and annual issues; National Center for Educational Statistics, preliminary data provided by Mr. George Lind (245-7961).

CHART 4

TABLE 3.—PERCENTAGE OF TUITION AND FEES IN EDUCATIONAL AND GENERAL CURRENT FUNDS REVENUES FISCAL YEARS 1947-48 TO 1971-72

[In thousands of dollars]

Year	Educational and general current funds revenues	Tuition and fees	
		Amount	Percent
1947-48	1, 546, 814	305, 632	19. 8
1949-50	1, 846, 825	395, 855	21. 4
1951-52	2, 035, 401	448, 395	22. 0
1953-54	2, 356, 506	554, 179	23. 5
1955-56	2, 881, 759	725, 926	25. 2
1957-58	3, 762, 532	939, 111	25. 0
1959-60	4, 712, 548	1, 161, 753	24. 7
1961-62	6, 072, 219	1, 505, 329	24. 8
1963-64	7, 830, 033	1, 899, 455	24. 3
1965-66	10, 340, 164	2, 679, 605	25. 9
1967-68	13, 919, 754	3, 393, 602	24. 4
1968-69	14, 417, 303	3, 829, 824	26. 6
1969-70	16, 486, 177	4, 419, 845	26. 8
1970-71	18, 392, 047	5, 021, 211	27. 3
1971-72	20, 198, 992	5, 594, 095	27. 7

Sources: U.S. Office of Education, "Higher Education Finances: Selected Trend and Summary Data" (Washington: U.S. Government Printing Office) 1968, p. 3; U.S. Office of Education, "Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965-66," p. 10, 1967-68, p. 11; National Center for Educational Statistics, preliminary data provided by George Lind (245-7961).

TABLE 4.—PERCENTAGE OF TUITION AND FEES IN EDUCATIONAL AND GENERAL CURRENT FUND REVENUES BY CONTROL OF INSTITUTION

[Dollar amounts in thousands]

Fiscal year	All institutions			Public institutions			Private institutions		
	Education and general current fund revenues	Tuition and fees		Education and general current fund revenues	Tuition and fees		Education and general current fund revenues	Tuition and fees	
		Amount	Percent		Amount	Percent		Amount	Percent
1961-62	$6, 072, 219	$1, 505, 329	24. 8	$3, 396, 772	$429, 731	12. 6	$2, 675, 447	$1, 075, 598	40. 2
1963-64	7, 830, 033	1, 899, 455	24. 3	4, 396, 869	582, 865	13. 3	3, 433, 164	1, 316, 589	38. 3
1965-66	10, 340, 164	2, 679, 605	25. 9	6, 047, 297	854, 458	14. 1	4, 292, 867	1, 825, 147	42. 5
1966-67	11, 985, 716	2, 982, 469	24. 9	7, 133, 946	977, 419	13. 7	4, 851, 770	1, 985, 050	40. 9
1967-68	13, 919, 754	3, 393, 602	24. 4	8, 706, 993	1, 209, 328	13. 9	5, 212, 762	2, 184, 274	14. 9
1968-69	14, 417, 303	3, 829, 824	26. 6	9, 318, 635	1, 399, 013	15. 0	5, 098, 667	2, 430, 811	47. 7
1969-70	16, 593, 582	4, 438, 486	26. 7	11, 024, 817	1, 740, 833	15. 8	5, 568, 765	2, 697, 653	48. 4
1970-71	18, 517, 216	5, 042, 978	27. 3	12, 447, 232	2, 038, 899	16. 4	6, 069, 984	3, 004, 079	49. 5
1971-72	20, 344, 258	5, 624, 172	27. 6	13, 728, 705	2, 341, 023	17. 1	6, 615, 533	3, 282, 148	49. 6

Sources: U.S. Department of Health, Education, and Welfare, Office of Education, "Higher Education Finances: Selected Trends and Summary Data" (Washington: U.S. Government Printing Office, 1968), pp. 3, 8-9, 38, 40; DHEW's "Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965-66, p. 10 and annual issues; National Center for Educational Statistics, preliminary data provided by George Lind (245-7961).

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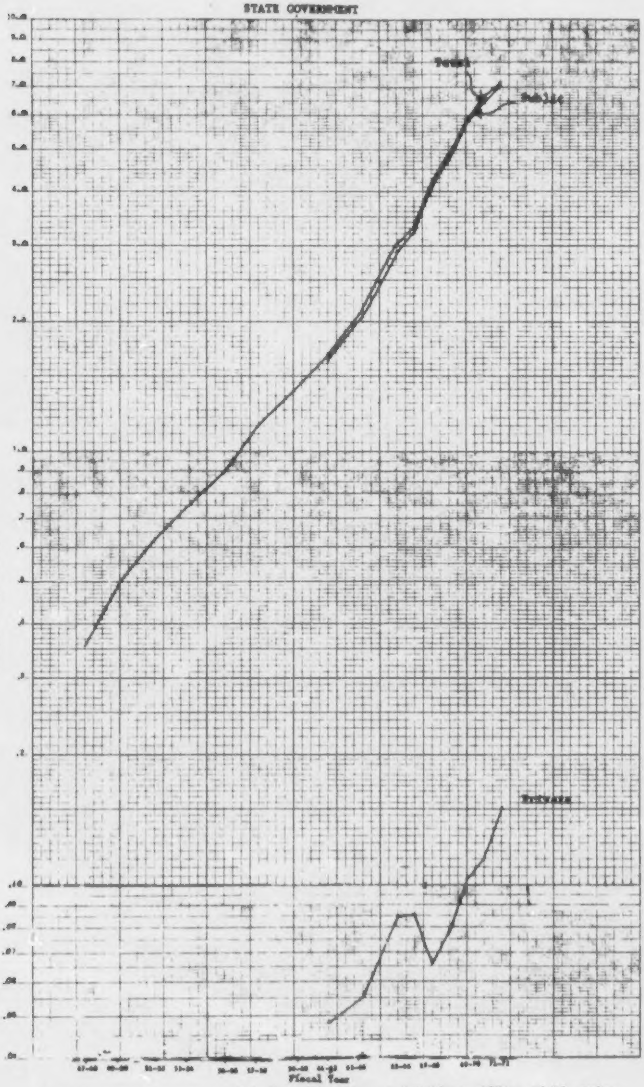

Sources: U.S. Department of Health, Education, and Welfare, Office of Education. Higher Education Finances: Selected Trend and Summary Data (Washington: U.S. Government Printing Office, 1968) pp. 3, 8-9, 38-40; also DHEW's Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965-66, p. 10 and annual issues; preliminary data provided Higher Education Surveys Branch, 1974.

CHART 5

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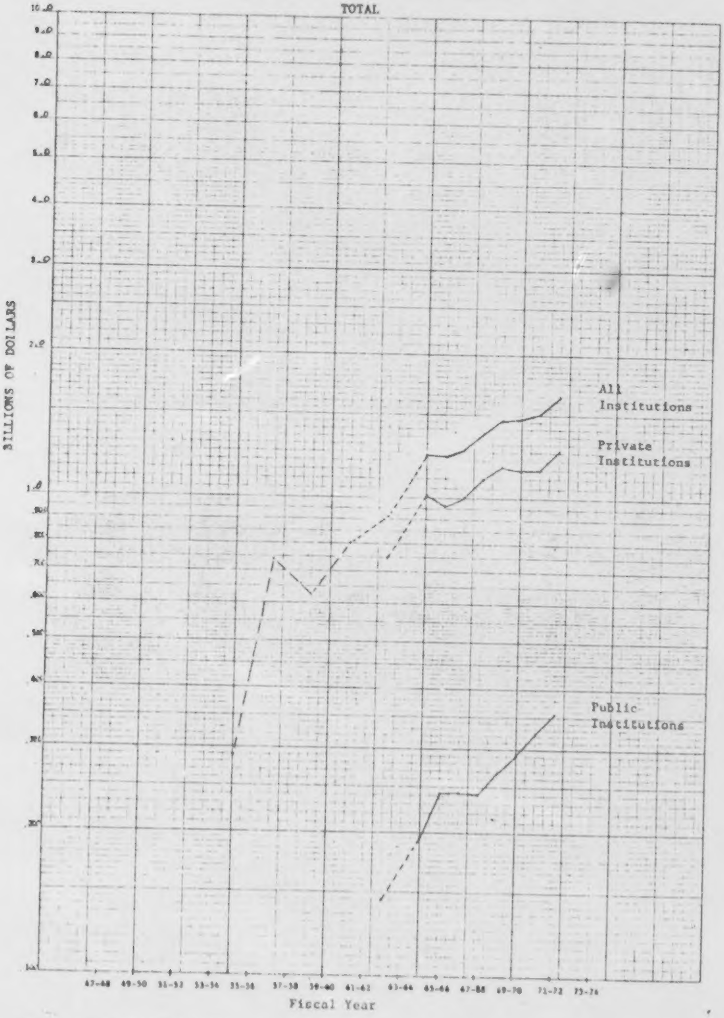
VOLUNTARY SUPPORT OF HIGHER EDUCATION



Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education. Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 6

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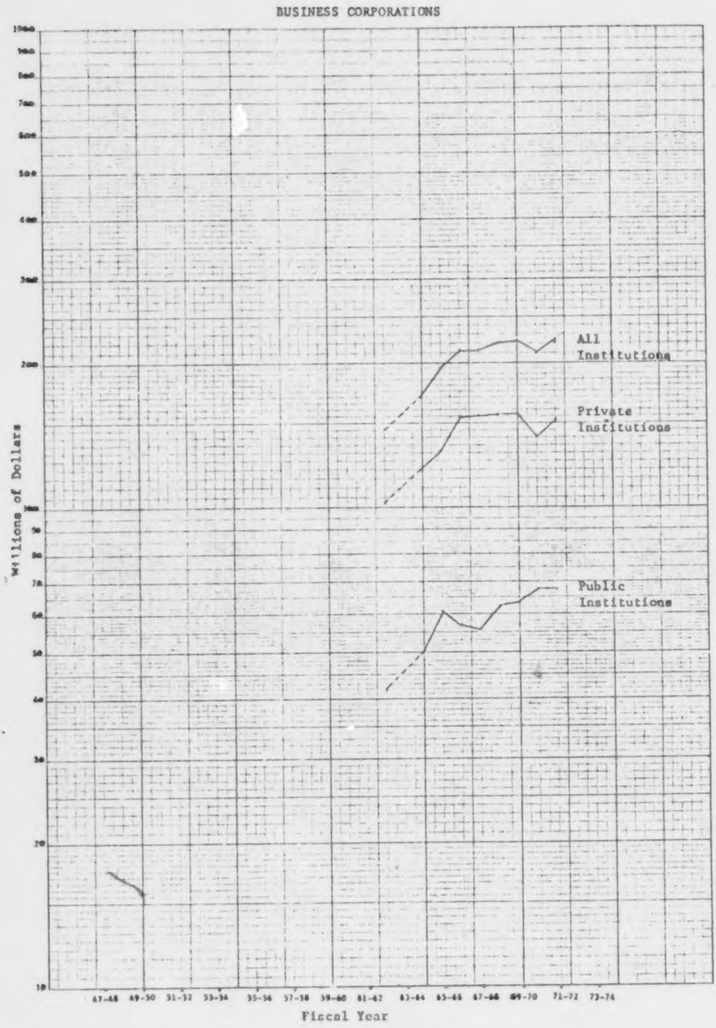
BUSINESS CORPORATIONS

Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education. Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 7

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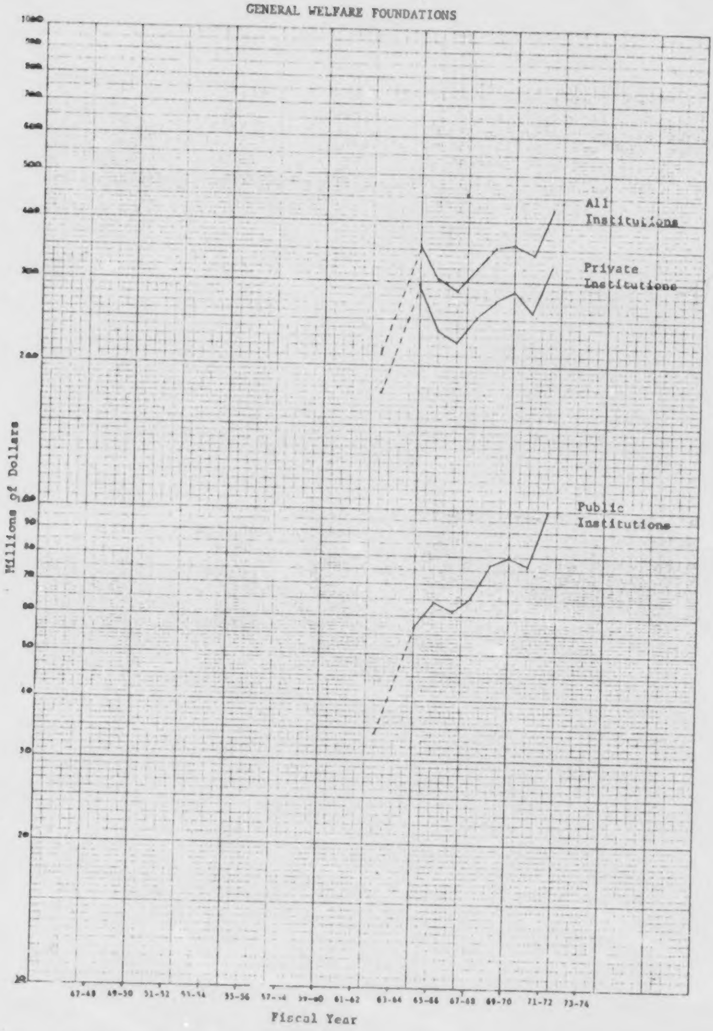

Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education. Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 8

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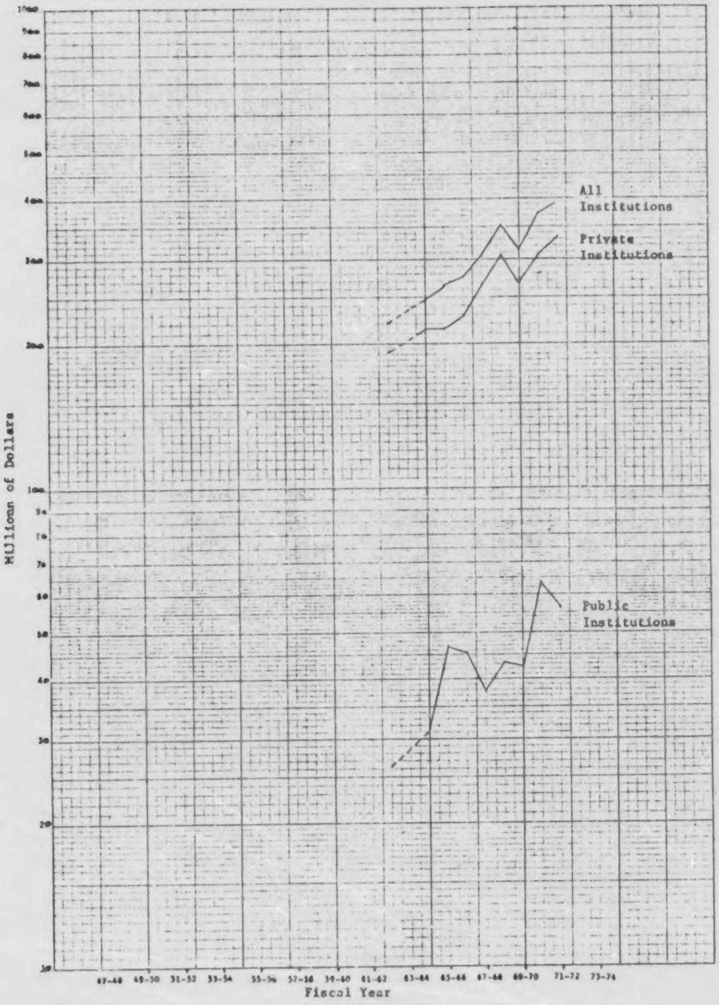
ALUMNI



Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education. Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 9

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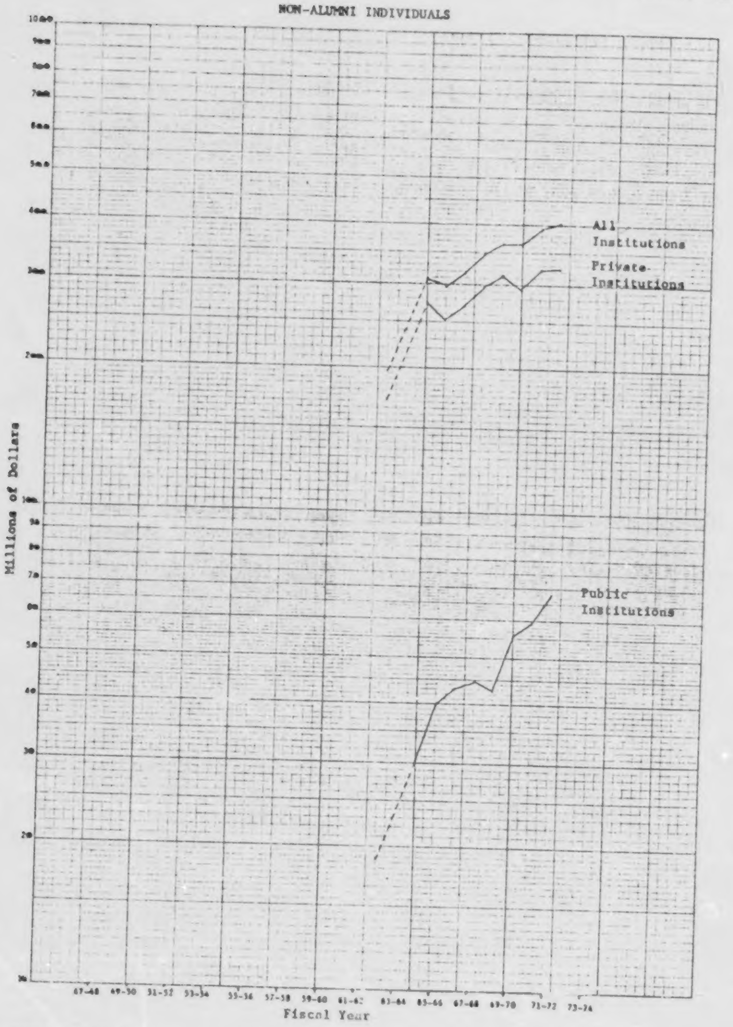

Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education, Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 10

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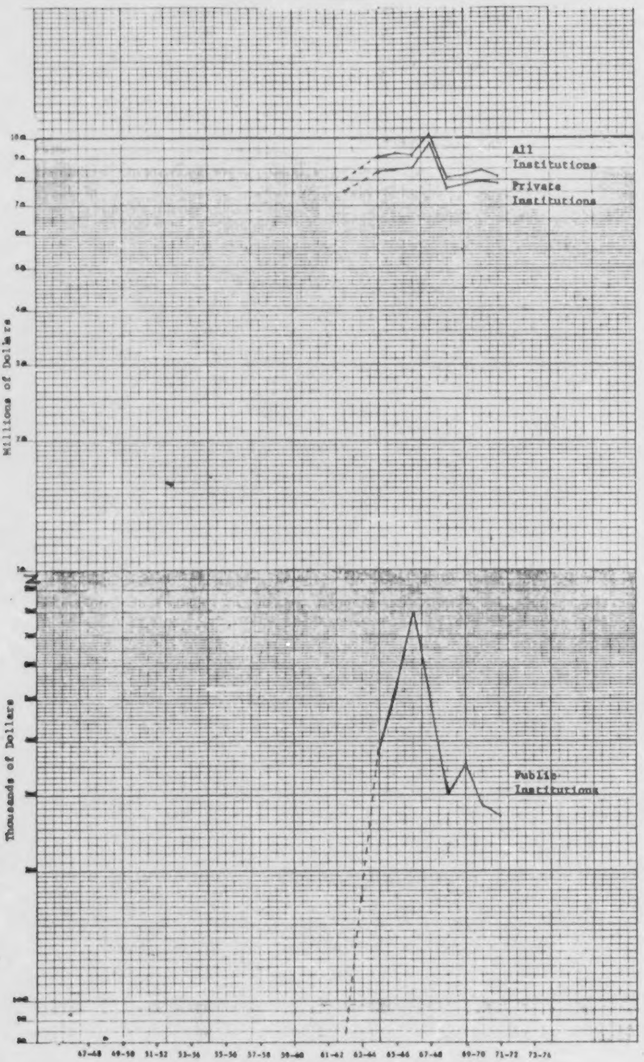
RELIGIOUS DENOMINATIONS

Note: Public/private support totals apply only to four-year institutions.

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education. Voluntary Support of America's Colleges and Universities 1962-63 (New York: Council for Financial Aid to Education, 1964), pp. 58-59 and annual issues.

CHART 11

TABLE 6.—VOLUNTARY SUPPORT OF HIGHER EDUCATION BY SOURCE

[In thousands of dollars]

Year	Total	Alumni	Nonalumni individuals	General welfare foundations	Business corporations	Religious denominations	Nonalumni nonchurch groups	Other sources
1954–55	289, 542							
1956–57	738, 118							
1958–59	626, 584							
1960–61	802, 986							
1962–63	911, 363	$220, 907	197, 179	212, 720	146, 688	80, 289	38, 093	15, 487
1964–65	1, 244, 815	248, 401	309, 692	357, 601	173, 986	90, 115	45, 326	19, 694
1965–66	1, 229, 794	265, 558	299, 945	304, 107	195, 705	92, 575	59, 086	12, 818
1966–67	1, 269, 968	277, 746	319, 918	289, 532	213, 194	91, 536	59, 948	18, 094
1967–68	1, 371, 557	307, 477	349, 459	320, 982	213, 787	102, 014	60, 750	17, 089
1968–69	1, 460, 878	352, 652	366, 146	352, 321	220, 569	81, 275	65, 690	22, 226
1969–70	1, 472, 309	314, 348	365, 547	359, 316	222, 416	83, 358	99, 194	28, 130
1970–71	1, 503, 837	372, 962	390, 266	341, 079	210, 949	84, 827	77, 924	25, 830
1971–72	1, 646, 607	392, 460	401, 397	426, 596	223, 183	81, 825	91, 086	30, 060

Source: Council for Financial Aid to Education "Voluntary Support of Education 1971–72" (New York: Council for Financial Aid to Education), 1973, pp. 65–67.

TABLE 7.—VOLUNTARY SUPPORT OF HIGHER EDUCATION BY SOURCE AND CONTROL OF 4-YEAR INSTITUTIONS

[In thousands of dollars]

PUBLIC INSTITUTIONS

Year	Total	Alumni	Nonalumni individuals	General welfare foundations	Business corporations	Religious denominations	Other groups and sources
1962-63	144, 824	26, 310	18, 999	34, 010	41, 855	84	23, 566
1964-65	195, 286	31, 421	30, 636	57, 110	50, 295	384	25, 440
1965-66	242, 892	46, 962	39, 972	63, 693	60, 803	534	30, 928
1966-67	243, 765	45, 394	43, 191	61, 762	57, 024	796	35, 596
1967-68	241, 580	37, 912	44, 810	65, 909	55, 990	494	36, 465
1968-69	269, 555	43, 471	42, 968	77, 334	62, 342	302	43, 138
1969-70	291, 701	42, 300	55, 486	80, 291	63, 677	355	49, 592
1970-71	325, 649	63, 564	59, 178	77, 252	67, 930	285	57, 441
1971-72	356, 253	56, 642	68, 060	99, 534	67, 816	269	63, 931

PRIVATE INSTITUTIONS

Year	Total	Alumni	Nonalumni individuals	General welfare foundations	Business corporations	Religious denominations	Other groups and sources
1962-63	749, 869	192, 258	173, 666	176, 373	103, 191	75, 172	29, 209
1964-65	1, 031, 728	215, 442	274, 460	297, 289	122, 112	83, 509	38, 916
1965-66	966, 416	216, 483	254, 887	238, 367	132, 675	84, 026	39, 977
1966-67	1, 007, 459	229, 556	271, 117	225, 203	154, 543	85, 693	41, 400
1967-68	1, 110, 553	267, 645	297, 170	252, 192	155, 716	97, 239	40, 590
1968-69	1, 170, 360	306, 298	316, 160	272, 666	156, 052	76, 761	42, 421
1969-70	1, 154, 735	269, 891	295, 408	277, 415	157, 023	78, 342	76, 655
1970-71	1, 155, 959	307, 285	323, 368	259, 326	141, 569	79, 667	44, 743
1971-72	1, 267, 337	332, 853	325, 223	322, 764	153, 504	78, 024	54, 971

Source: American Council on Education, Policy Analysis Service, based on Council for Financial Aid to Education, "Voluntary Support of America's Colleges and Universities 1962–1963" (New York: Council for Financial Aid to Education, 1964), p. 58–59 and annual issues.

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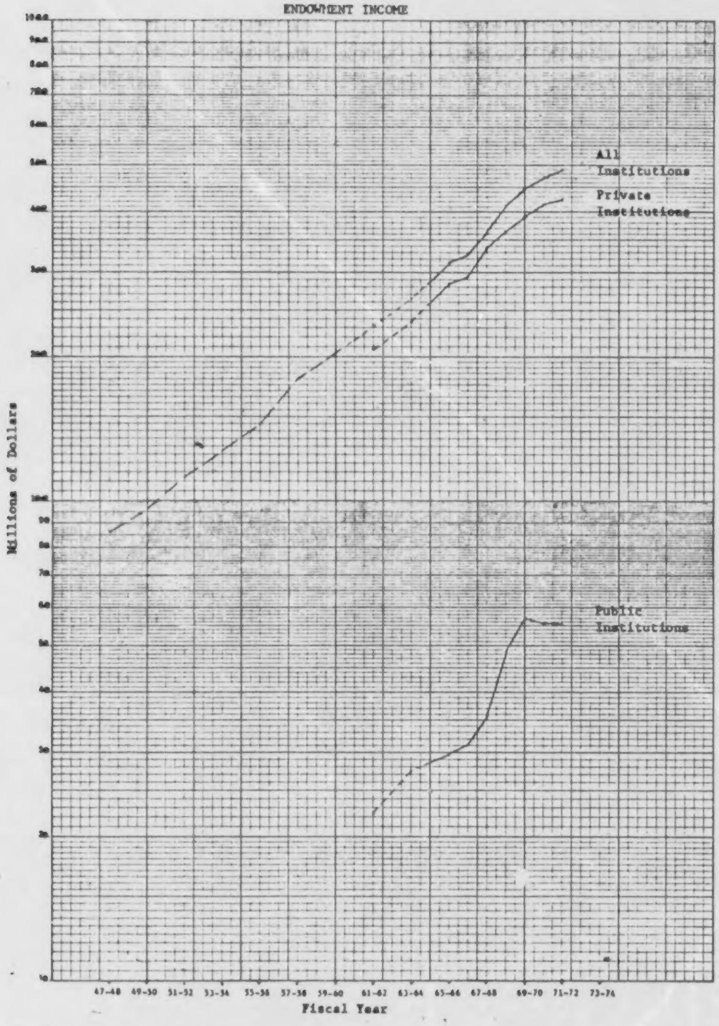

Sources: American Council on Education, Policy Analysis Service based on U.S. Office of Education. Higher Education Finances, Selected Trend and Summary Data (Washington: U.S. Government Printing Office, 1968), pp. 3-6, 37-41; U.S. Office of Education. Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965-66 (Washington: U.S. Government Printing Office, 1969), p. 10 and annual issues; National Center for Educational Statistics, preliminary data provided by Mr. George Lind (245-7961).

CHART 12

TABLE 8.—ENDOWMENT INCOME OF HIGHER EDUCATION BY CONTROL OF INSTITUTIONS, FISCAL YEARS 1947–48 TO 1971–72

[Dollar amounts in thousands]

Year	All institutions		Public institutions		Private institutions	
	Amount	Percent	Amount	Percent	Amount	Percent
1947–48	$86, 708					
1949–50	96, 370					
1951–52	112, 927					
1953–54	127, 553					
1955–56	145, 040					
1957–58	181, 638					
1959–60	206, 666					
1961–62	232, 341	100	$22, 641	9. 7	$209, 700	90. 3
1963–64	266, 213	100	27, 443	10. 3	238, 770	89. 7
1965–66	316, 292	100	29, 949	9. 5	286, 344	90. 5
1966–67	328, 116	100	31, 245	9. 5	296, 871	90. 5
1967–68	364, 046	100	35, 842	9. 8	328, 205	90. 2
1968–69	413, 334	100	48, 513	11. 7	364, 822	88. 3
1969–70	447, 329	100	57, 084	12. 8	390, 244	87. 2
1970–71	470, 708	100	55, 494	11. 8	415, 214	88. 2
1971–72	480, 920	100	55, 235	11. 5	425, 685	88. 5

Sources: Policy Analysis Service, American Council on Education based on U.S. Office of Education, "Higher Education Finances, Selected Trend and Summary Data" (Washington: U.S. Government Printing Office, 1968), pp. 3–6, 37–41; U.S. Office of Education, "Financial Statistics of Institutions of Higher Education: Current Funds, Revenues and Expenditures, 1965–66" (Washington: U.S. Government Printing Office, 1969), p. 10 and annual issues: National Center for Educational Statistics, preliminary data provided by Mr. George Lind (245–7961).

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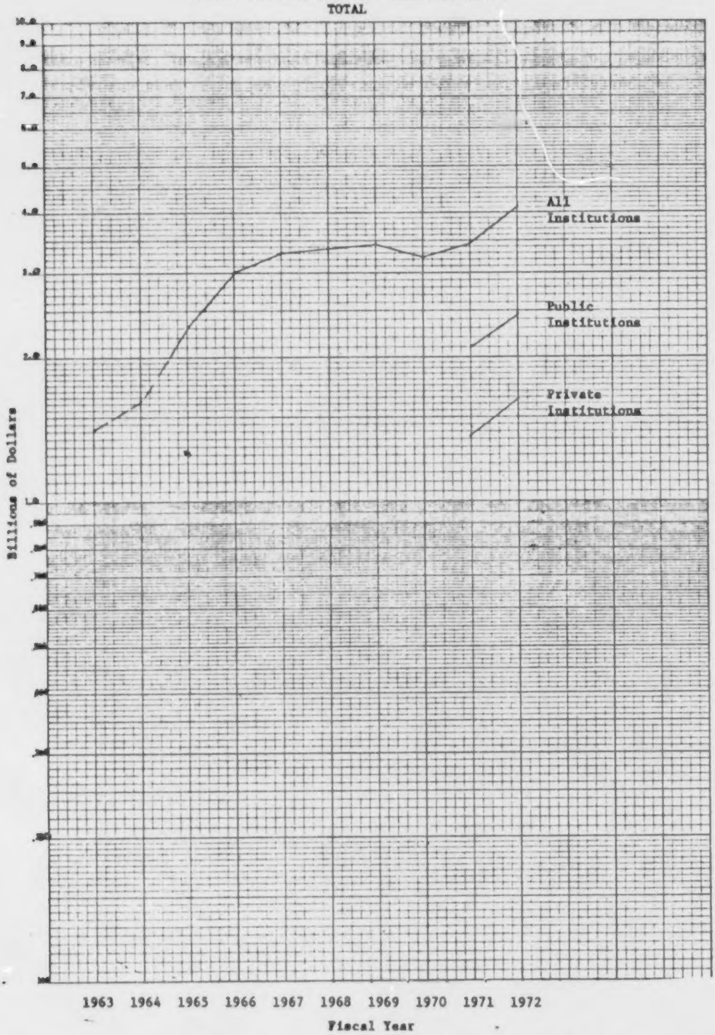
FEDERAL OBLIGATIONS FOR HIGHER EDUCATION
TOTAL



Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, 67-68 and preliminary data.

CHART 13

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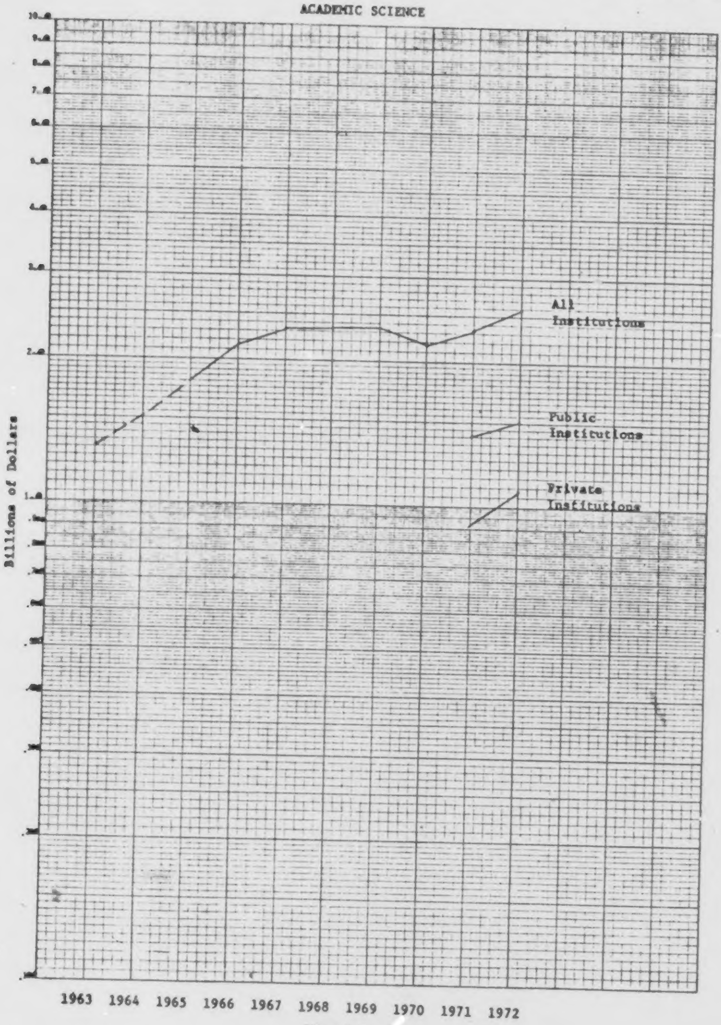
ACADEMIC SCIENCE



Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, [illegible] 68 and preliminary data.

CHART 14

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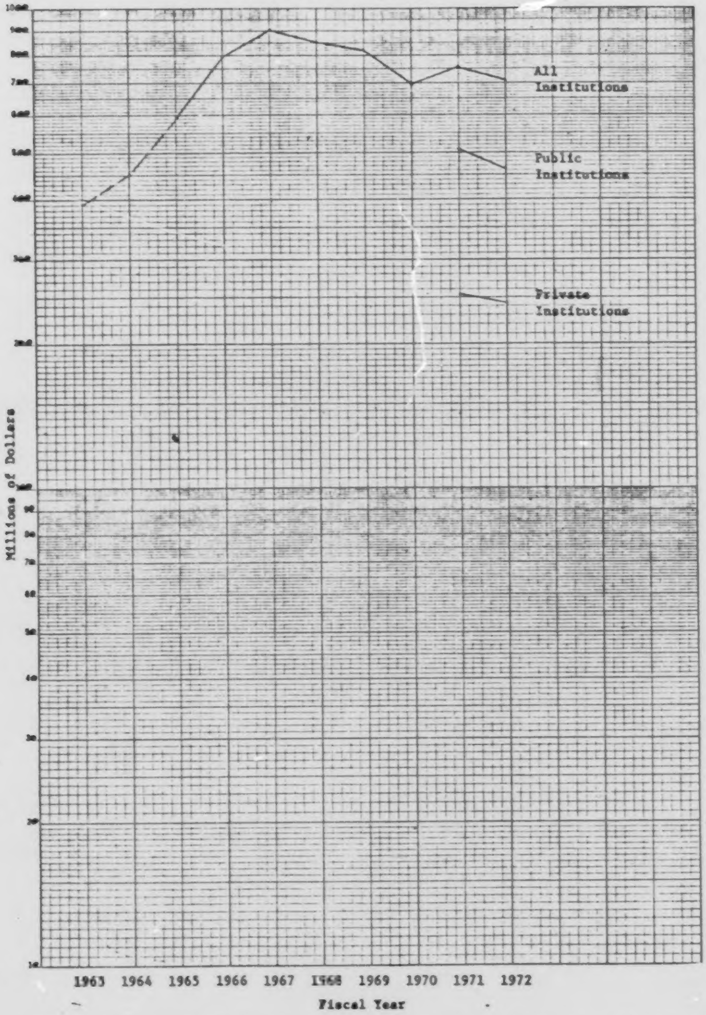
OTHER SCIENCE ACTIVITIES



Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, 67-68 and preliminary data.

CHART 15

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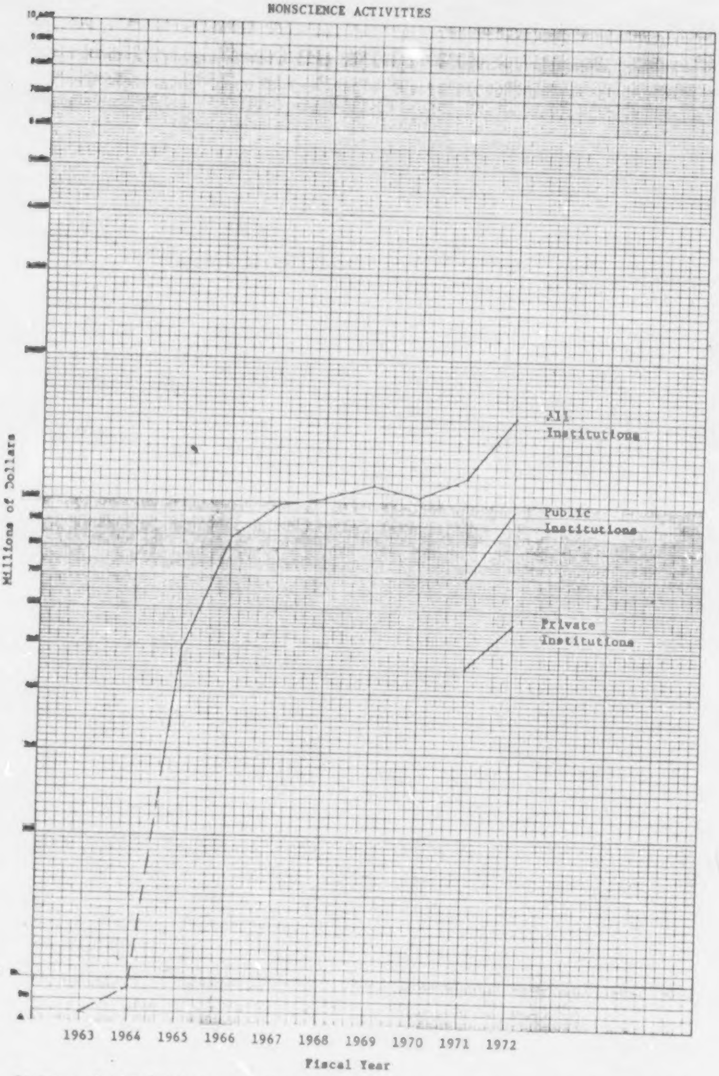
NONSCIENCE ACTIVITIES



Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, 67-68 and preliminary data.

CHART 16

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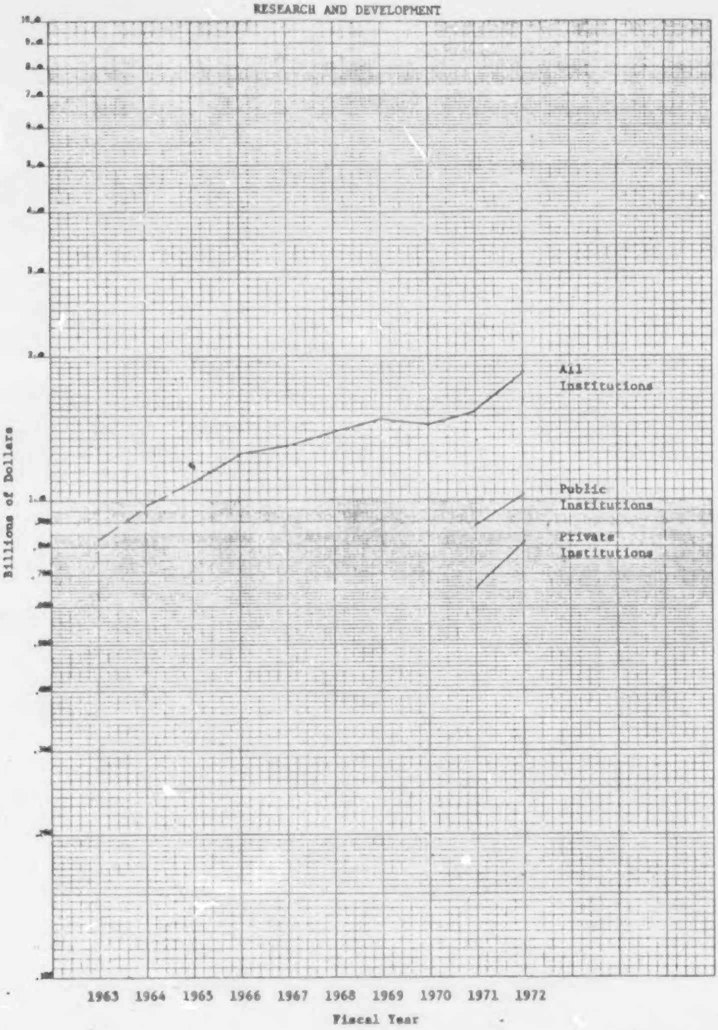
RESEARCH AND DEVELOPMENT



Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, 67-68 and preliminary data.

CHART 17

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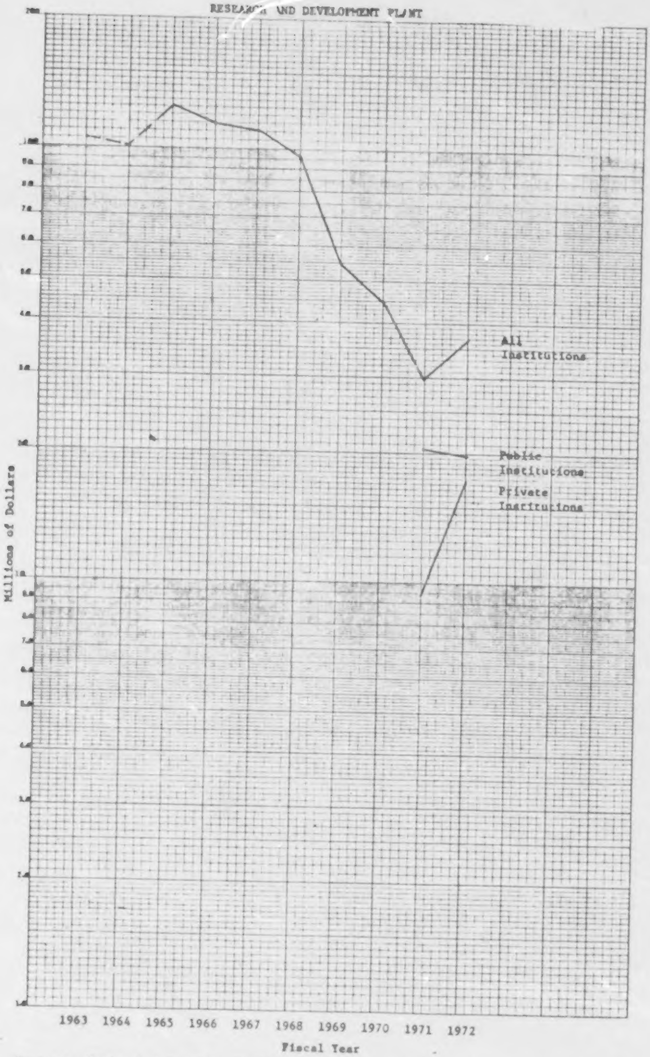

Sources: National Science Foundation. Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971 (Washington: U.S. Government Printing Office, 1972), pp. 46, 67-68 and preliminary data.

Chart 18

TABLE 9.—FEDERAL OBLIGATIONS FOR HIGHER EDUCATION, FISCAL YEARS 1963-72

[In millions of dollars]

Year	Total	Academic science	Research and development	Research and development plant	Other science activities	Nonscience activities
1963	1, 413. 0	1, 328. 5	829. 5	105. 9	393. 1	84. 5
1964	1, 625. 0	1, 528. 6	975. 6	100. 8	452. 2	96. 4
1965	2, 305. 5	1, 816. 2	1, 095. 0	126. 2	595. 0	489. 3
1966	3, 010. 0	2, 163. 5	1, 252. 1	114. 8	796. 6	846. 4
1967	3, 311. 1	2, 323. 8	1, 301. 2	111. 3	911. 2	987. 3
1968	3, 379. 7	2, 349. 8	1, 398. 3	96. 1	855. 4	1, 029. 9
1969	3, 453. 3	2, 361. 4	1, 474. 7	54. 5	832. 2	1, 091. 9
1970	3, 226. 7	2, 187. 6	1, 446. 6	44. 8	696. 2	1, 039. 2
1971	3, 480. 2	2, 335. 8	1, 544. 1	29. 9	761. 8	1, 144. 3
1972	4, 130. 6	2, 599. 0	1, 853. 0	36. 9	709. 1	1, 531. 6

Sources: National Science Foundation, "Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal Year 1971" (Washington: U.S. Government Printing Office) 1972, p. 46 and 1972 preliminary data.

TABLE 10.—FEDERAL OBLIGATIONS FOR HIGHER EDUCATION BY CONTROL OF INSTITUTION, FISCAL YEARS 1971-72 [1]

[Dollar amounts in millions]

	Fiscal year 1971		Fiscal year 1972	
	Amount	Percent	Amount	Percent
All institutions:				
Total	$3, 480. 2	100. 0	$4, 130. 6	100. 0
Academic science	2, 335. 9	100. 0	2, 599. 0	100. 0
Research and development	1, 544. 1	100. 0	1, 853. 0	100. 0
Research and development plant	29. 9	100. 0	36. 9	100. 0
Other science activities	761. 8	100. 0	709. 1	100. 0
Nonscience activities	1, 144. 3	100. 0	1, 531. 6	100. 0
Public institutions:				
Total	2, 105. 6	60. 5	2, 487. 4	60. 2
Academic science	1, 415. 5	60. 6	1, 518. 0	58. 4
Research and development	886. 4	57. 4	1, 033. 6	55. 8
Research and development plant	20. 5	68. 6	19. 6	53. 1
Other science activities	508. 6	66. 8	464. 8	65. 5
Nonscience activities	690. 1	60. 3	969. 3	63. 3
Private institutions:				
Total	1, 374. 6	39. 5	1, 643. 2	39. 8
Academic science	920. 4	39. 4	1, 081. 0	41. 6
Research and development	657. 7	42. 6	819. 4	44. 2
Research and development plant	9. 4	31. 4	17. 3	46. 9
Other science activities	253. 2	33. 2	244. 3	34. 5
Nonscience activities	454. 2	39. 7	562. 3	36. 7

[1] Federal obligations are not available by control of institution prior to fiscal year 1971.

Sources: National Science Foundation, "Federal Support to Universities, Colleges, and Selected Nonprofit Institutions, Fiscal year 1971" (Washington: U.S. Government Printing Office) 1972, pp. 46, 67–68 and preliminary data.

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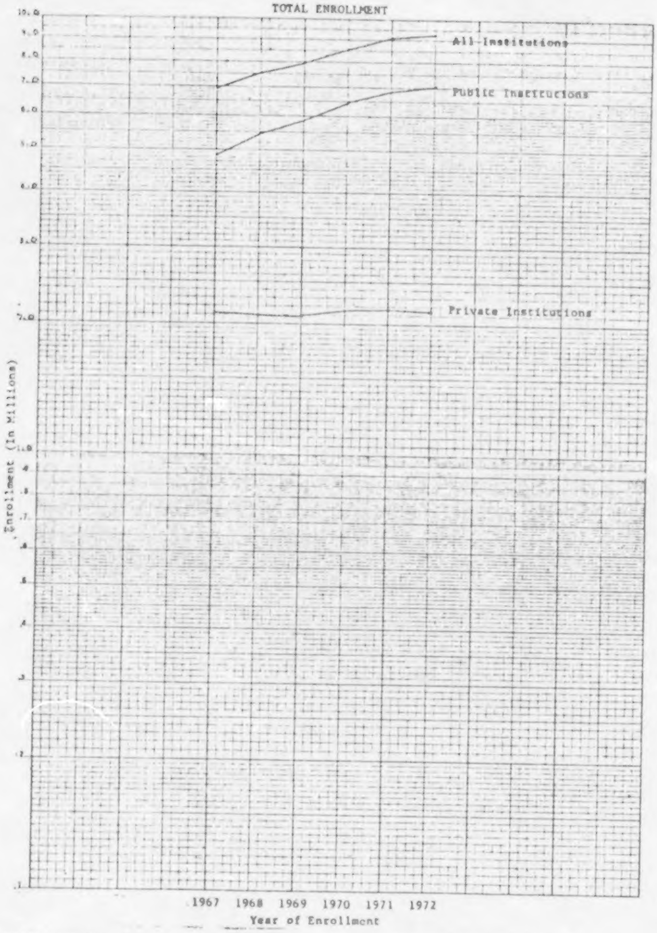
TOTAL ENROLLMENT



Source: American Council on Education, A Fact Book on Higher Education, First Issue, 1973, Table 73.9 based on United States Office of Education Opening Fall Enrollment in Higher Education series.

CHART 21

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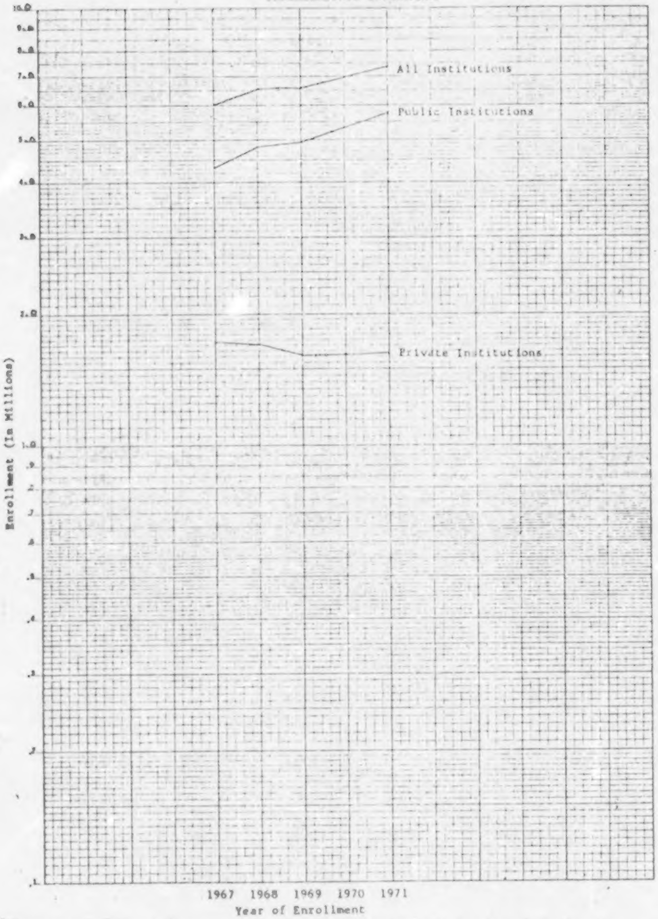
UNDERGRADUATE ENROLLMENT



Sources: Enrollment figures compiled by the Policy Analysis Service of the American Council on Education from United States Office of Education sources including Opening Fall Enrollment in Higher Education (Washington: U.S. Government Printing Office, 1967), p. 6 and following years: Opening Fall Enrollment in Higher Education: Part A - Summary Data, 1968, p. 6; Fall Enrollment in Higher Education, Supplementary Information, Summary Data, 1969, p. 14; Fall Enrollment in Higher Education, Supplementary Information, Summary Data, 1970, p. 13; Fall Enrollment in Higher Education, 1971, p. 1 and Preliminary data (December, 1972).

CHART 22

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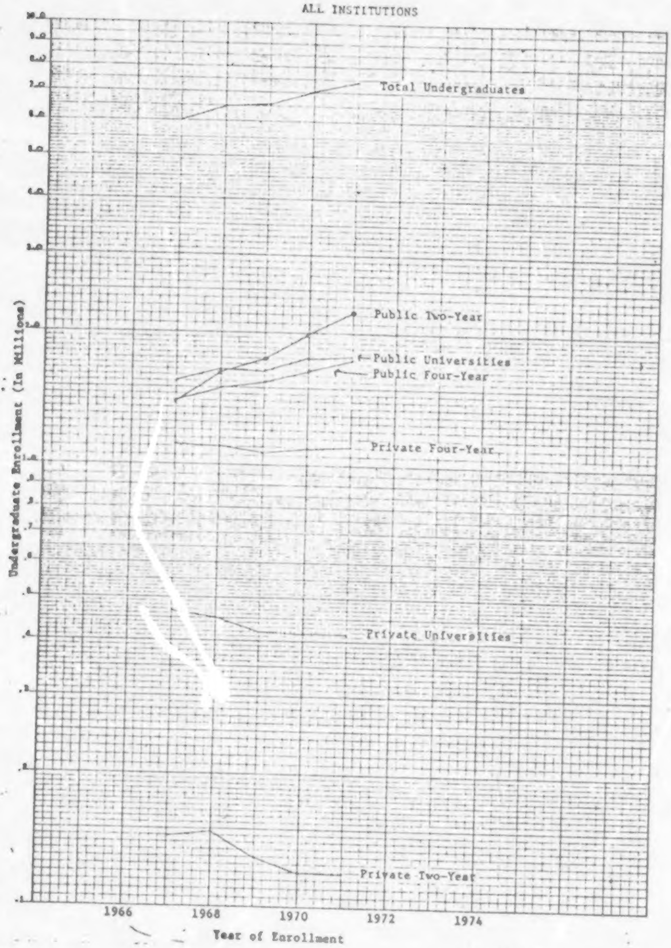
ALL INSTITUTIONS



Sources: Enrollment figures compiled by the Office of Research of the American Council on Education from United States Office of Education sources including Opening Fall Enrollment in Higher Education (Washington: U.S. Government Printing Office), 1967, pp. 8-10 and following years: Opening Fall Enrollment in Higher Education: Part A - Summary Data, 1968, pp. 6-7; Fall Enrollment in Higher Education, Supplementary Information, Summary Data, 1969, pp. 15-16; Fall Enrollment in Higher Education, Supplementary Information, Summary Data, 1970, pp. 14-15; Opening Fall Enrollment in Higher Education, Preliminary data (December, 1972) prepublication release, p. 0; Office of Education, Higher Education Surveys Branch, prepublication data as quoted by Mr. George Wade, Educational Program Specialist (962-7301).

CHART 23

TABLE 12.—ENROLLMENT AT INSTITUTIONS OF HIGHER EDUCATION BY CONTROL OF INSTITUTION, ALL STUDENTS, 1967-73

	Total		Public		Private	
	Number	Percent	Number	Percent	Number	Percent
1967 Total	6, 963, 687	100	4, 850, 330	70	2, 113, 357	30
Universities	2, 619, 097	100	1, 903, 365	73	715, 732	27
4-yr colleges	2, 826, 511	100	1, 572, 295	56	1, 254, 216	44
2-yr colleges	1, 518, 079	100	1, 374, 670	91	143, 409	9
1968 Total	7, 571, 636	100	5, 469, 472	72	2, 102, 164	28
Universities	2, 787, 682	100	2, 083, 628	75	704, 054	25
4-yr colleges	2, 987, 528	100	1, 738, 180	58	1, 249, 348	42
2-yr colleges	1, 796, 426	100	1, 647, 664	92	148, 762	8
1969 Total	8, 066, 233	100	5, 939, 513	74	2, 126, 720	26
Universities	2, 940, 691	100	2, 233, 766	76	705, 925	24
4-yr colleges	3, 144, 392	100	1, 857, 837	59	1, 286, 555	41
2-yr colleges	1, 981, 150	100	1, 847, 910	93	133, 240	7
1970 Total	8, 649, 368	100	6, 476, 058	74	2, 173, 310	25
Universities	3, 076, 941	100	2, 350, 204	76	726, 737	24
4-year colleges	3, 345, 213	100	2, 023, 882	61	1, 321, 331	39
2-year colleges	2, 227, 214	100	2, 101, 972	94	125, 242	6
1971 Total	9, 025, 031	100	6, 854, 685	76	2, 170, 346	24
Universities	3, 080, 276	100	2, 372, 551	77	707, 725	23
4-year colleges	3, 453, 335	100	2, 115, 522	61	1, 337, 813	39
2-year colleges	2, 491, 420	100	2, 366, 612	95	124, 808	5
1972 Total	9, 297, 787	100	7, 122, 875	77	2, 174, 912	23
Universities	3, 093, 006	100	2, 386, 751	77	706, 255	23
4-year colleges	3, 533, 847	100	2, 182, 591	62	1, 351, 256	38
2-year colleges	2, 670, 934	100	2, 553, 533	96	117, 401	4
1973 Total	9, 662, 763	100	7, 459, 604	77	2, 203, 159	23
Universities	3, 193, 281	100	2, 487, 698	78	705, 583	22
4-year colleges	3, 552, 229	100	2, 178, 420	61	1, 373, 809	39
2-year colleges	2, 917, 253	100	2, 793, 486	96	123, 767	4

Sources: U.S. Office of Education, "Opening Fall Enrollment in Higher Education" (Washington: U.S. Government Printing Office), 1967, p. 7 and following years: 1968, p. 6; 1969, p. 11; 1970, p. 13; 1971, p. 14; National Center for Educational Statistics, preliminary data, 1974.

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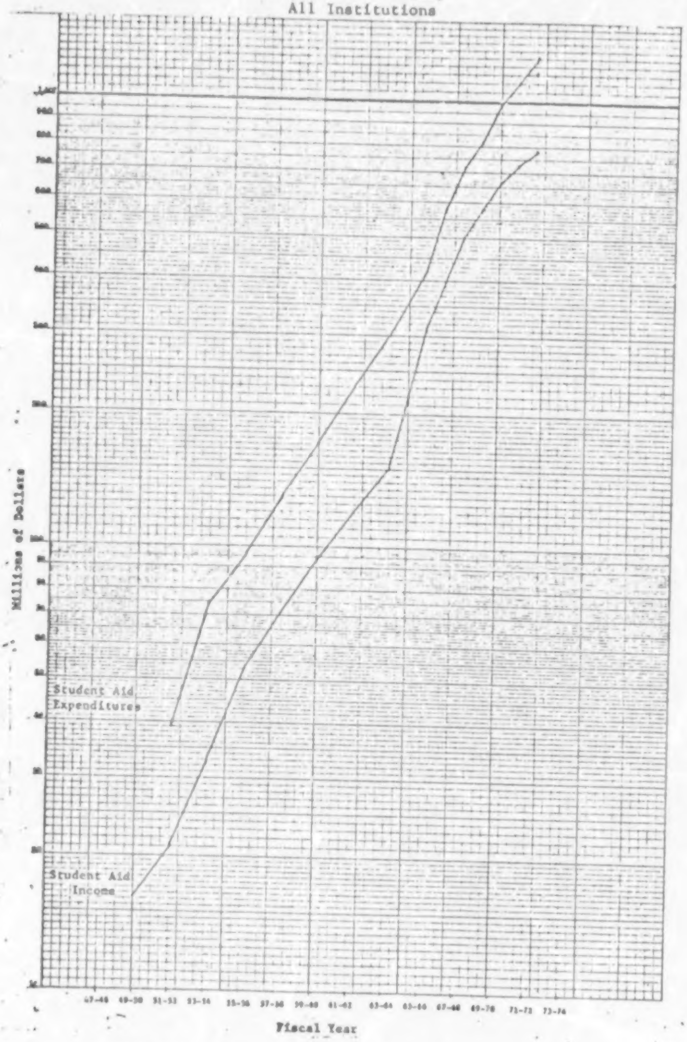
Student-Aid Subsidy
All Institutions



Sources: U.S. Department of Health, Education, and Welfare, Office of Education, *Higher Education Finances, Selected Trend and Summary Data* (Washington: U.S. Government Printing Office), 1968, pp. 3-5; U.S. Department of Health, Education, and Welfare, Office of Education, *Financial Statistics of Institutions of Higher Education, Current Funds Revenues and Expenditures, 1965-66* (Washington: U.S. Government Printing Office), 1969, pp. 10-11 and annual editions: 1966-67: p. 13; 1967-68: p. 12; 1968-69: p. 16; 1969-71 prepublication provided by Mr. George Lind (245-7961).

CHART 24

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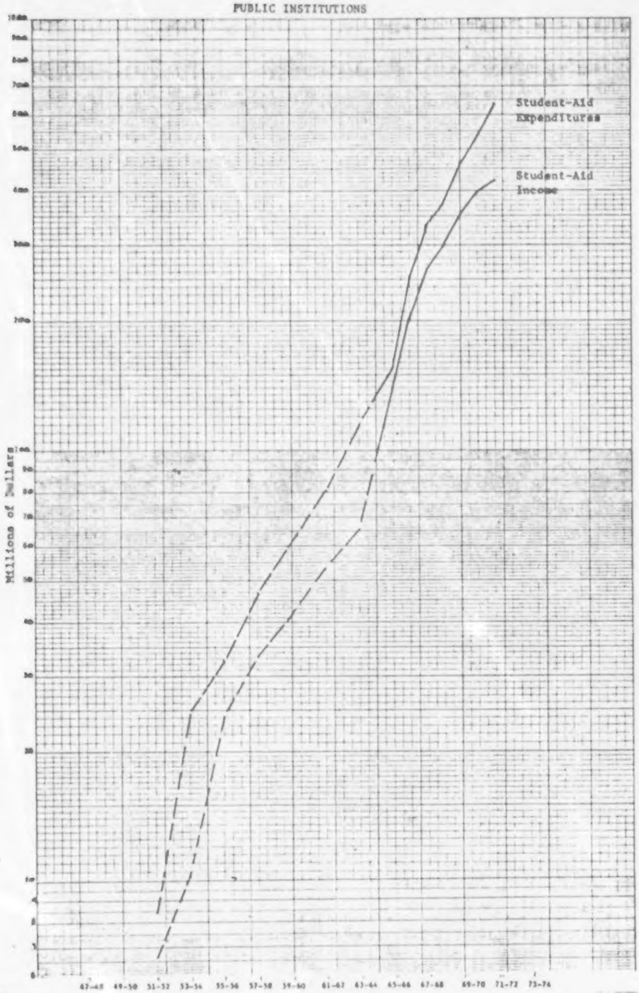
PUBLIC INSTITUTIONS



Sources: U.S. Office of Education. Higher Education Finances, Selected Trend and Summary Data (Washington: U.S. Government Printing Office, 1968) p. 3; U.S. Office of Education. Financial Statistics of Institutions of Higher Education, Current Funds Revenues and Expenditures, 1965-66 (Washington: U.S. Government Printing Office, 1969) p. 10 and annual issues: 1966-67: p. 13; 1967-68: p. 11; 1968-69: p. 16; 1969-71 prepublication data (April 6, 1973), Table 1, and Mr. George Lind (245-7961).

CHART 25

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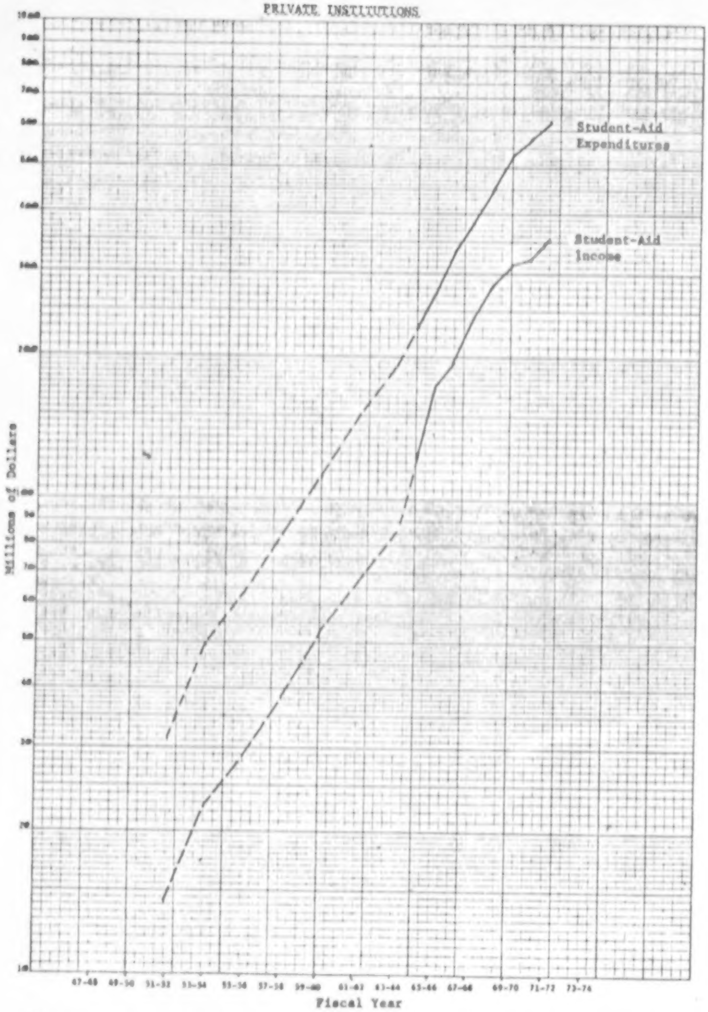

Sources: U.S. Office of Education. Higher Education Finances, Selected Trend and Summary Data (Washington: U.S. Government Printing Office, 1968) p. 3; U.S. Office of Education. Financial Statistics of Institutions of Higher Education, Current Funds Revenues and Expenditures, 1965-66 (Washington: U.S. Government Printing Office, 1969) p. 10 and annual issues: 1966-67: p. 13; 1967-68: p. 11; 1968-69: p. 16; 1969-71 prepublication data (April 6, 1973), Table 1, and Mr. George Lind (245-7961).

CHART 26

TABLE 13.—FINANCIAL STATISTICS OF STUDENT AID PROGRAMS AT INSTITUTIONS OF HIGHER EDUCATION: AGGREGATE UNITED STATES, FISCAL YEARS 1949-50 TO 1972-72

[Dollar amounts in thousands]

									New Federal student financial assistance program							
Institutional	1949-50	1951-52	1953-54	1955-56	1957-58	1959-60	1961-62	1963-64	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1965-72 total
Student-aid income[1]	$16,288	$21,058	$32,918	$53,039	$71,442	$94,248	$120,216	$150,871	$313,403	$398,169	$503,888	$578,779	$668,079	$720,524	$780,981	
Public	4,904	6,799	10,355	24,077	33,337	41,907	53,253	65,453	140,173	202,849	263,608	299,402	356,281	399,260	426,735	
Private	11,384	14,260	22,564	28,960	38,104	52,342	66,962	85,418	173,230	195,320	240,280	279,377	311,797	321,305	354,246	
Student-aid expenditures[2]	(3)	39,795	74,789	96,224	131,386	1[illegible]3,963	231,257	303,371	429,225	587,334	718 675	823,202	993,632	1,109,649	1,253,392	
Public	(3)	8,474	25,127	32,328	46,739	6[illegible],551	80,575	110,498	156,439	251,489	332,122	374,306	464,532	536,093	630,734	
Private	(3)	31,321	49,661	63,896	84,647	112,412	150,699	192,874	272,786	335,865	386,553	448,896	529,100	573,556	625,546	
Student-aid subsidy gap[4]	(3)	18,737	41,871	43,185	59,944	79,715	111,059	152,500	115,822	189,165	214,787	244,423	325,553	389,125	472,411	$1,951,286
Public	(3)	1,675	14,772	8,251	13,402	19,[illegible]44	27,322	45,045	16,266	48,640	68,514	74,904	108,251	136,833	203,999	657,407
Private	(3)	17,061	27,097	34,936	46,543	60,070	83,737	107,456	99,556	140,545	146,273	169,519	217,303	252,251	271,300	1,296,747
Ratio of student-aid income to student-aid expenditures		0.53	0.44	0.55	0.54	0.54	0.52	0.50	0.73	0.68	0.70	0.70	0.67	0.65	0.62	
Public		.80	.41	.74	.71	.68	.66	.59	.90	.81	.79	.80	.77	.74	.68	
Private		.45	.45	.45	.45	.47	.44	.44	.64	.58	.62	.62	.59	.56	.57	
Ratio of subsidy to income	(3)	.89	1.27	.81	.84	.85	.92	1.01	.37	.48	.43	.42	.49	.54	.50	
Public	(3)	.25	1.43	.34	.40	.47	.51	.69	.12	.24	.26	.24	.30	.34	.48	
Private	(3)	1.20	1.20	1.21	1.22	1.15	1.25	1.26	.57	.72	.61	.61	.70	.78	.77	

[1] Current-fund income to institutions of higher education specifically designed or earmarked for student aid. It does not include veteran's benefits.

[2] Total amounts of student financial aid channeled through institutions.

[3] Not available.

[4] Amounts of financial aid provided to students by institutions from instutional funds.

Sources: U.S. Department of Health, Eeducation, and Welfare, Office of Education, "Higher Education Finances, Selected Trend and Summary Data "(Washington: U.S. Government Printing Office), 1968, p. 3; U.S. Department of Health Education, and Welfare, Office of Education, "Financial Statistics of Institutions of Higher Education, Current Funds Revenues and Expenditures, 1965-66" (Washington: U.S. Government Printing Office), 1969, p. 10 and annual editions: 1966-67; p. 13; 1967-68: p. 11; 1968-69: p. 16; 1969-71 prepublication data (Apr. 6, 1973), table 1, and Mr. George Lind (245-7961).

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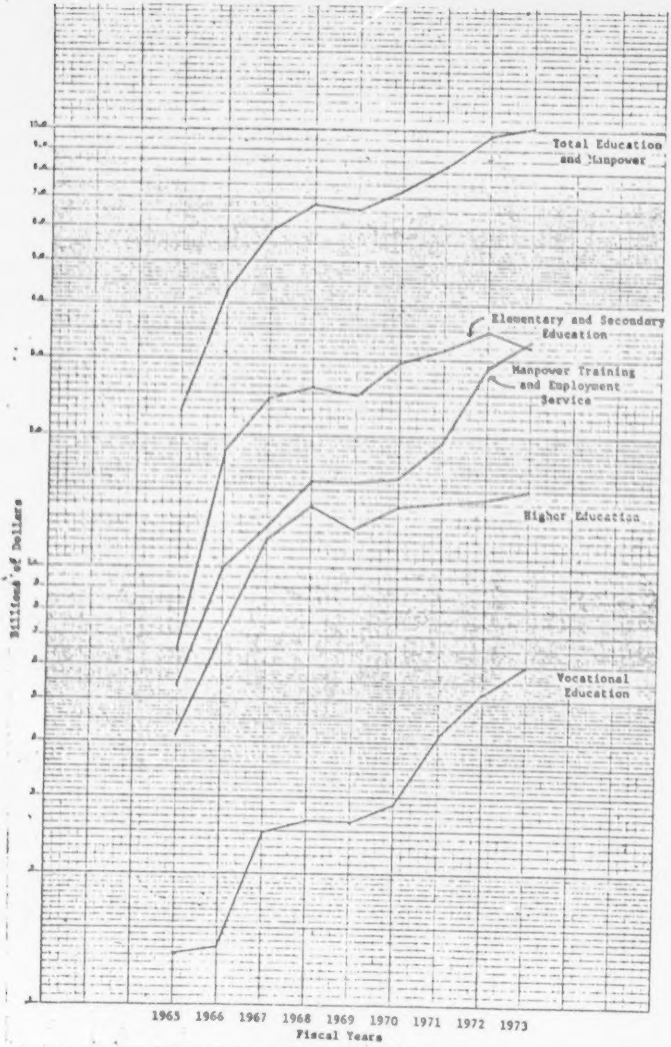
FEDERAL OUTLAYS FOR EDUCATION AND MANPOWER: SELECTED SECTORS 1964 TO 1974



Source: The United States Budget in Brief: Fiscal Year 1974 (Washington: U.S. Government Printing Office) pp. 63-65.

CHART 28

TABLE 14.—FEDERAL BUDGET OUTLAYS FOR EDUCATION AND MANPOWER FUNCTIONS, 1965-73

[In billions of dollars]

	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total outlays	118.4	134.7	158.3	178.8	184.5	196.6	211.4	231.9	246.5
Total education and manpower	2.3	4.3	5.9	6.7	6.5	7.3	8.2	9.8	10.2
Manpower training and employment service	.5	1.0	1.2	1.6	1.6	1.6	2.0	2.9	3.3
Elementary and secondary education	.6	1.8	2.4	2.6	2.5	2.8	3.2	3.5	3.2
Higher education	.4	.7	1.2	1.4	1.2	1.4	1.4	1.4	1.5
Vocational education	.1	.1	.2	.3	.3	.3	.4	.5	.6

NOTES

Generally, budget outlays are defined as the "spending side of the Federal budget." Technically, Federal outlays are payments in the form of the issuance of checks or the disbursement of cash to liquidate obligations of the Federal Government.

These figures on direct Federal outlays for education and manpower do not include: (1) Federal funds for social security or veterans' benefits payments to which participants in education or training programs may be entitled; or (2) Federal outlays for research and development conducted at educational institutions.

Source: "The United States Budget in Brief: Fiscal Year 1974," U.S. Government Printing Office, Washington, D.C., pp. 63 and 65.

THE AMERICAN COLLEGE TESTING PROGRAM,
June 27, 1974.

Mr. JAMES HARRISON,
Committee on Education and Labor,
2181 Rayburn House Office Building,
Washington, D.C.

DEAR JIM: Attached is a "Report from Washington" that I have just written for ACT's newsletter, *Activity*. Since that publication won't be out until September, and my comments have to do with your present hearings, I thought that you might be interested in seeing a copy now.

Best Wishes,

KENNETH E. YOUNG,
Vice President,
Director of Washington, D.C. Office.

STUDENT FINANCING: WHO AND WHAT?

For much of this past summer, the House Education Subcommittee, under Chairman James G. O'Hara (D.-Mich.), has been holding a series of open hearings and closed seminars, exploring the full range of problems associated with the financing of students in postsecondary education.

Carl Becker once wrote that every age has its magic words. Judging from the discussions at these most interesting and informative meetings, two of the magic words of our time are "access" and "choice". These terms came up time and time again as statements of major national goals—improving access and increasing choice for students pursuing education beyond high school.

One serious difficulty with these discussions, however, is that in talking about access and choice the speakers rarely were specific enough in defining the target population or the educational universe being considered. It is important to know "who" will have access to "what".

For example, when we talk about postsecondary "students", we could mean:

High school graduates who are seeking postsecondary education.

All high school graduates.

All persons aged 18 to 22.

Just about every adult.

And when we talk about "higher or postsecondary education", we could mean:

Traditional colleges and universities.

All postsecondary education (including proprietary schools and vocational/technical institutions).

All postsecondary experiences that offer an opportunity for organized learning (including apprenticeships, on-the-job training, alternating work-and-learn arrangements, etc.)

It makes a big difference in public policy and the levels of funding that might be involved, depending upon what set of definitions is used.

Much of the discussion of the past has focused on self-selected high school graduates seeking admission to traditional colleges and universities (presently less than 50 percent of high school graduates and involving about 2500 institutions of higher education). If we were to continue to concern ourselves primarily with this group, present levels of funding (federal and state, direct and indirect, to institutions and to students) probably would not be sufficient to provide "access"—that is, to give everyone of these youngsters who wanted to go to college, and who could get in, the financial resources to do so. Inflation has taken its toll. Also, the size of the self-selected group of college-bound students keeps changing depending upon funding levels and patterns. Current funding certainly falls far short of achieving "choice"—i.e., providing these students with the financial ability to go to whatever college they desired, regardless of cost (which is what the private colleges yearn for).

However, present national policy, as set forth in the Education Amendments of 1972, goes beyond the above definitions of "who" and "what". Our concern now is for all, or virtually all, high school graduates. And consideration now is given (in the form of eligibility for federal funds) to the full range of postsecondary educational institutions. As someone has said, we are in the process of moving from mass to universal postsecondary education.

All of this is in law and on paper, but it has yet to be transformed into fiscal reality. The expense of insuring access for this much larger group of students to this greater variety of institutions and programs would go far beyond present funding levels. And to provide for the luxury of institutional choice, regardless of price, would cost even more. Neither the federal government nor the states have shown any disposition to face up to the levels of funding that would be required.

Educators, legislators, and economists (particularly economists) continue to argue about "econometric models" and "delivery systems". However, the basic problem can be simply stated (although not simply resolved): *Find sufficient money or develop a rationing system.* A rationing system, on the other hand, means that lots of students will get less than they need and/or lots of students will get nothing. And it is not politically palatable to announce this as a policy, especially if one is then asked to identify the "have-lesses" and the "have-nots".

The amount of money that would be required is difficult to calculate but would go far beyond present funding levels. For the federal government alone (under present programs) it would require, at the very least, full funding of all campus-based student aid programs, perhaps $2 billion in Basic Educational Opportunity Grants, $50 million or more in State Scholarship Incentive Grants, a large Cost-of-Education allowance, and some sort of institutional aid.

Even if ample funds were somehow made available to insure that every high school graduate could proceed to some sort of post-secondary education, we would then find that:

A substantial percentage of the students would *not* choose to continue their schooling (because they hate formal education, they receive no encouragement from home, or for many other reasons).

A still larger percentage would make such a poor choice as to career and/or type of education, institution, or program that they would drop out or have to start all over again.

And, of course, these two groups (especially the first) would be disproportionately representative of low-income families.

Furthermore, we know that in a complex technological society like ours, high school graduates (even those presumably prepared in some way for employment) experience great difficulty in finding meaningful employment. It appears increasingly necessary that some way be found to help the vast majority of high school graduates (not to mention dropouts) to continue their education in some form that will lead them to useful and satisfying employment, among other things.

Therefore, if it is to be national policy that all, or most, high school graduates will be encouraged and assisted to pursue some sort of appropriate postsecondary education, still larger sums of money (over and beyond financial aid) would have to be expended in order to provide counseling and guidance, tutorial services, etc.—far above present token efforts. This kind of national commitment to achieving true access (let alone choice) does not exist at the present time.

So, given big promises (the word "entitlement" was ill-advisedly used in the Basic Education Opportunity Grant Program) and limited funding, the Congress finds itself jockeying around, looking for a generally acceptable rationing formula and a workable distribution system. It won't find them.

Over the long haul, the answer has to be: "Think bigger." We must expand our horizon to consider *all* of the variety of post-high school options, to identify and relate to the literally thousands of career-development and less-formal learning opportunities that can be made available through such alternatives as:

Military service
Public service (ACTION and its sub-groups, voluntary associations, etc.)
Business and industry
Labor unions
As well as educational institutions/programs

This approach obviously poses a major challenge. Once it is adopted, however, the problem of financing begins to take on a more rational, though more complex, perspective. All students would not be channeled in one direction but would have many options. Education would not be tied to just one kind of institution but would be available, in a variety of forms, no matter what route is taken, many of the options would not require additional funding but, in fact, would generate student financial support.

And perhaps, finally, Rep. O'Hara and his colleagues could then begin to get what they long have been asking for—some fairly accurate data and projections as to how many students there are who need what kinds and amounts of assistance in order to achieve what educational goals. That kind of information cannot be obtained now because we are dealing with only a portion (and a constantly shifting portion at that) of the student population and we are looking at only a small slice of postsecondary education options.